

Private & Confidential

**BRITISH WATERWAYS
3 YEAR CORPORATE PLAN
2004/05 – 2006/07**

BRITISH WATERWAY'S 3 YEAR CORPORATE PLAN 2004/05 to 2006/07

1.	INTRODUCTION	1
2.	2003-04 FORECAST OUT TURN AGAINST LAST YEAR'S PLAN BY BUSINESS AREA	1
2.1	OVERVIEW OF PROGRESS DURING 2003/04	1
2.1.1	Property.....	1
2.1.2	Leisure	2
2.1.3	Waterway restoration.....	3
2.1.4	Core Waterway.....	3
2.1.5	Openness and Accountability	4
2.1.6	Safety backlog and statutory arrears	4
2.1.7	Business Priority Projects.....	4
2.1.8	Freight	4
2.1.9	Environment and Heritage	5
2.1.10	Waterway Standards	5
2.2	VENTURES.....	5
2.3	CORPORATE SERVICES.....	6
2.3.1	Organisation restructure	6
2.3.2	SAP and Shared Services Centre	6
2.3.3	People	6
2.4	FINANCIAL OUT TURN	7
2.4.1	Income	7
2.4.2	Expenditure	8
3	THE NEW PLAN FOR 2004-05 TO 2006-07.....	10
3.1	MAIN CHANGES FROM LAST YEARS' PLAN	10
3.2	PLANNED PERFORMANCE AGAINST CRITICAL SUCCESS FACTORS.....	11
3.2.1	Performance Indicators (work in progress which will be finalised in September as part of the strategy plan review)	12
3.2	FINANCIAL PERFORMANCE BY BUSINESS AREA.....	13
3.3.1	Summary	13
3.3.2	Value Creation by Business Area	14
3.3.3	Commentary.....	15
3.4	CAPITAL EXPENDITURE	17
3.4.1	Commercial capital expenditure	17
3.4.2	Operational capital expenditure	18
3.5	PEOPLE	19
3.5.1	People	19
3.5.2	People - Equal opportunities.....	19
3.6	RISKS AND OPPORTUNITIES	20
3.6.1	Risks	20
3.6.2	Opportunities	22
4.	BUSINESS AREAS	24
4.1	PROPERTY INVESTMENTS	24
4.2	LEISURE	26
4.2.1	Boats and Boating.....	27
4.2.2	Visitor Attractions.....	28
4.2.3	Development of new leisure businesses.....	29
4.3	RESTORATION	31
4.4	CORE WATERWAY	33
4.4.1	Core waterway Income.....	34
4.4.2	Core Waterway Expenditure.....	36
4.5	VENTURES.....	40
4.5.1	ISIS	41
4.5.2	Water Grid.....	41
4.5.3	Wood Wharf, Docklands.....	42
4.5.4	British Waterways Marinas Ltd (BWML)	42
4.5.5	Waterscape.com.....	43
4.5.6	Waterside Pub Partnership (WP5).....	44

4.5.6	<i>Other Ventures</i>	45
4.6	CORPORATE SERVICES.....	47
4.6.1	<i>Pension Fund</i>	48
4.6.2	<i>Openness and Accountability</i>	48
5.	SUSTAINABLE DEVELOPMENT	49
5.1	ENVIRONMENT AND HERITAGE	51
5.1.1	<i>Environment</i>	51
5.2	SOCIAL INCLUSION	52
	APPENDIX 1 – GOVERNMENT GRANT	53
	APPENDIX 2 – PROFIT & LOSS ACCOUNT	55
1.	INCOME	56
2	EXPENDITURE	57
	APPENDIX 3 – SUMMARY SCOTLAND PLAN	59

1. INTRODUCTION

This document presents British Waterways' plans for the year's 2004/5 to 2006/7 and forms part of our strategic planning process.

The policy documents *Waterways for Tomorrow*, *Scotland's Canals – an asset for the future* and *Waterways for Wales* are the basis for setting our long term aims and objectives. We produce a 10-Year Strategic Plan to demonstrate how we will achieve these aims and objectives, which is revised and approved by the Board each year. The last revision was approved in November 2003. This 3-year plan is informed by the 10-Year Strategy and concentrates on the detailed financial plan, priorities and milestones that need to be met to achieve the strategy.

Separate plans have been produced for DEFRA covering the English and Welsh waterways and for the Scottish Executive covering waterways in Scotland. A summary of the Scotland plan is attached as appendix 3.

Section 2 concentrates on progress against last year's plan and section 3 contains our plans for the 3 years beginning 2004-05. The business area analysis in section 4 shows our 3-year plans with a focus on profitability and economic value. Throughout, priorities are highlighted along with milestones. These milestones will be reviewed and updated on a rolling quarterly basis.

Details on our wider objectives and corporate social responsibilities are explained in Section 5.

2. 2003-04 FORECAST OUT TURN AGAINST LAST YEAR'S PLAN BY BUSINESS AREA

2.1 Overview of progress during 2003/04

During 2003/4 we underwent a fundamental organisational restructuring of the business. 25 waterways and 6 regions were transformed into 10 business units. The reorganisation was announced in May 2003 and the new business units were up and running by the 1 September 2003. The reorganisation inevitably caused huge disruption to the normal business process and to people's lives. Our people managed the process magnificently but inevitably we were not able to give every area of the business the attention we planned and this has affected performance in some areas.

2.1.1 Property

Summary of progress against 2003/04 Property priorities

- An updated commercial investment strategy was prepared and introduced with the aim of maximising overall returns.
- Record levels of investment (£57m) and disposal (£22m) achieved.
- Acquisition of several major, high profile properties.
- 31 low value properties sold.
- The detailed work up of ISIS bid properties was undertaken and the BW-ISIS working protocol introduced.
- The improved consolidated property reports are now regularly prepared.

Property has continued to be a stable source of income accounting for £24.4m in the year.

In April 2003 the acquisition of the Liverpool docks from English Partnerships brought with it a £32.5m dowry

Our disposal plans were scaled back from plan by £10m to £22m following the receipt of the Liverpool docks dowry to limit the amount of cash awaiting investment and not generating an income stream.

The overall contribution from the property business area is forecast to be £17.5m compared to £18.3m planned. The outturn for EVC is forecast to be £22.8m compared to £19.7m planned:

2.1.2 Leisure

Summary of progress against 2003/04 Leisure priorities

- BWML was formed to enhance performance of BW operated marinas and to address external governance issues.
- £5m 'Make a Difference' spend on customer facilities / service.
- Service Manager roles created with specific accountabilities for customer service.
- Falkirk £100k behind breakeven before depreciation target.

2.1.2.1 Marinas

During the year our major marina sites have been transferred to a wholly owned subsidiary (BWML) to be managed together as one entity. This decision was taken to ensure a consistent approach is applied across BW owned marinas, to take advantage from economies of scale and expert business focus and also to demonstrate in an open and transparent way that BW is not subsidising this part of the business with public funds. BWML is now accounted for under the ventures business area and 2003/04 budget numbers in Section 3 onwards of this document have been adjusted accordingly to provide meaningful comparisons.

2.1.2.2 Visitor surveys

During 2003/04 we have put in place a more robust mechanism for measuring the number of people who visit our waterways and their satisfaction. We have also completed a national towpath survey which told us that 93% of visitors were satisfied or very satisfied with the overall enjoyment of their trip and that 91% were satisfied or very satisfied with the overall upkeep of the waterways.

The results from customer surveys will link directly with our new waterway standards (see 2.1.4.6) to provide a direct relationship between what we deliver on the ground and the satisfaction of our customers.

2.1.2.3 Attractions

Falkirk has had another good year of visitor numbers but we have not been as successful as we planned on the catering and retail enterprises. Both Anderton and Standedge failed to achieve the visitor numbers planned with a consequential loss in income. Overall attractions will perform £250k worse than budget at EVC level.

2.1.3 Waterway restoration

Summary of progress against 2003/04 Restoration priorities

- A robust 'gateway' review process (to appraise projects using best practice project appraisal techniques) was implemented to identify a realistic view of potential schemes.
- £6m contribution from AWM achieved towards infrastructure works.
- Cotswold canal restoration bid submitted to HLF.
- 'Network 2025' vision document approved by Board ready for publication to help support future funding of priority schemes.
- The priority of the Bow back rivers restoration raised in light of the London Olympic games bid.

We have been working hard to secure funding for our priority schemes. Progress has been made but no commitments have yet been forthcoming. 2003/04 has been a year for review and a chance to identify and provide greater focus on the schemes that add the most to achieving our strategic objectives. We have documented our priorities in the 'Network 2025' paper and revised the way we present this business area. In earlier plans the restoration business area included significant amounts of 3rd party funded works that relate more to core waterway works than restoration schemes. Going forward this business area will now only comprise waterway restoration and new build only. Other 3rd party income receipts are shown as part of the core waterway business area. From Section 3 onwards of this plan comparatives have been restated to allow meaningful comparisons of forward plan figures.

2.1.4 Core Waterway

Summary of progress against 2003/04 Core Waterway priorities

- Safety backlog works completely eliminated plus £21m spend on reducing statutory arrears.
- £5m spend on additional customer facilities under the "Make A Difference" programme.
- Enhanced water management avoids waterway closures during record dry season.
- Completion of investment in SCADA reduces loss of water from network.
- Additional £4m grant from the Scottish Executive enabling the completion of Scottish safety backlog works as well as other high priority works on key network assets.
- Electricity and Gas utility wayleave agreements settled generating backdated income and additional ongoing annual income.
- Liverpool Docks agreement concluded with £32.5m dowry.
- Hanson - Harleyford freight deal.
- Agreed long term settlement for Severn Trent outfalls.
- Regulatory regime introduced for vessel standards and crew competency
- Inter-modal Waste Study with Biffaward Grant commenced January 2004
- Aggregates: Lafarge ready to increase traffic on Trent March 2004
 - RMC seeking FFG for new traffic on R Severn
 - Hanson traffic running on Grand Union from July 2003
- MCA accepted BW/PLA standards as basis of new regime for existing vessels from April 2005
- Competency assessment for freight carrier skippers to be introduced by MCA in 2005
- Owner funded surveys delayed until introduction of MCA scheme in 2005.
- Termination of Mast agreement with Ultramast.
- Workshop review undertaken and 2 workshops closed.

2.1.5 Openness and Accountability

During 2003/04 we completed a consultation with stakeholders on a proposed package of measures to improve openness and accountability. The consultation process was completed in January 2004 and the new process will be fully introduced from Autumn 2004.

2.1.6 Safety backlog and statutory arrears

Safety backlog works will be completely eliminated by the end of March 2004.

During the year we developed our understanding of the remaining statutory arrears particularly with regard to the consequences of failure (COF), in other words where the greatest damage and injury might occur as a result of an impaired asset failing. This knowledge has significantly influenced our expenditure plans set out in 4.4.2.2. The arrears expenditure for 2003/4 will be less than budgeted, arising from reallocation of resources to fund emergency works to non-arrears assets (£0.9m) and an increased expenditure on safety related backlog (£0.6m).

2.1.7 Business Priority Projects

The carry forward of the Canary Wharf income from 2001/02 and other one-off income receipts from utility companies enabled £5m to be ring fenced for works to improve visitor facilities. This is a key part of our strategy of doubling the number of visitors over a 10-year period. This expenditure was termed 'Make a Difference' expenditure and included the following works during 2003/04:

Type	Number	Latest Forecast
Number of new or improved (sanitary) stations	17	984
Towpath improvement projects	22	1,227
Car parks	6	764
Interpretation projects	13	340
Visitor moorings and navigation facilities	13	390
Other small visitor improvement projects	25	1,392
Total MAD Projects	96	5,097

Investment in sanitary stations also includes general upgrading of existing moorings to secure and enhance existing income streams.

Dog waste bins have been installed across the network in an effort to encourage day walkers to clear up after their dogs and make the towpath more enjoyable for other users of the towpath.

2.1.8 Freight

Market analysis incorporated in the Freight Strategy Board Paper March 2003 highlighted the potential of carrying waste, aggregates and containers. Freight Marketing has therefore been focussed on:

- Commercial navigations which link coastal ports to those inland industrial sectors with good proximity to transfer their goods to the waterways

- Cruising waterways which provide opportunities for niche operations particularly on lock free sections.

As a result some new aggregate and waste /recycling projects have been developed ready for pilot schemes, or extensions of existing traffic, or new traffic commencing in 2004/05. Good progress has also been made on licensing and inspection proposals.

2.1.9 Environment and Heritage

We have started to focus on structures/buildings identified by local authorities and English Heritage as potentially at risk. There is a wide variation in the quantity and content of local authority registers. They are developing all the time and over the year the total number of our buildings on these registers rose from 106 to 115. This is despite some buildings having been removed after repair work. We believe there are many examples where we are wrongly identified as the owner. The vast majority of our buildings on the register are quite minor and require minimal work to remove them from the register.

Wakefield Warehouse, Sowerby Bridge Salt Warehouse and Foxton Inclined Plane remain on the English Heritage register. Work is underway at Wakefield and Sowerby Bridge and these will be removed from the register during next year. If we receive funds from the HLF for clearing the site and undertaking minor repairs as planned the Foxton site will also be removed by year 2 of the plan.

We started work during the year on a campaign to reduce energy consumption across the business, however we decided to delay the launch due to the organisation restructure to ensure the impact was not lost. Most of the preliminary work has been undertaken so that the profile of this campaign can be raised significantly in 2004/05.

2.1.10 Waterway Standards

The Waterway Standards are a key measurement of the level of customer service provision.

In last year's plan, we reported that our minimum waterway standards were no longer sufficient to meet growing customer expectations and we undertook to carry out a review. The Standards have been reviewed and updated three times since their inception in 1989 and were last reviewed in 1996. The minimum standards set then are considered to be inadequate for our current leisure business, both quantitative and in breadth and range of standards.

During 2003/4 we started a process to revise the standards to make them more customer focused for all of our users. Part of the process involved engaging and consulting with our customers in line with our Openness and Accountability Charter.

The review process has been completed and the implications and options are now being reviewed by the business units. That analysis will be completed in the first half of 2004/5. We are now in a transitional arrangement of the Business units being aware of the new standards and evaluating how they could be achieved and over what time-scale.

2.2 Ventures

Summary of progress against 2003/04 Ventures priorities

- Wood Wharf master plan approved by London Borough of Tower Hamlets and partner selection process commenced.
- Waterscape launched and initial targets for site activity met.
- Pub partnership concept established and partners selection process commenced.
- Edinburgh Quay office space has been let.

Waterscape.com was launched in the Summer of 2003 with the aim of attracting new visitors and promoting the waterways as well as being a profitable venture in its own right. The first year of trading is forecast to produce a net result in line with expectations although the sales mix has varied from plan.

The proposed Wood Wharf partnership made substantial progress by achieving planning guidance for the site and the launch of the OJEC partner selection procedure. Our other emerging venture, the pub partnership, has also started its OJEC selection procedure after exhaustive work on identifying potential sites on our waterways.

2.3 Corporate Services

Summary of progress against 2003/04 priorities

- Business re-organisation implemented.
- SAP implementation completed.
- Shared services centre established.
- Desk-top IT outsourcing progressed to final contract negotiation stage.

2.3.1 Organisation restructure

The new structure has increased our ability to manage effectively through clearer and shorter lines of command and it has also put more and greater expertise at the business unit level where it can help and influence day to day activity.

The reorganisation was achieved remarkably quickly (under 6 months) and it is a great testament to our people that they embraced the new structure so readily and enabled it to start functioning with relatively little disruption to our customers. The benefits of restructuring are being felt across the whole business and we are becoming increasingly more efficient and effective as a result.

2.3.2 SAP and Shared Services Centre

Many of the financial and efficiency measures planned to be achieved via the Clearwater Project were helped by the business re-organisation and the establishment of a Shared Services Centre to undertake some administrative functions. Routine accounting, credit control and purchasing functions have already been transferred to the Shared Services Centre but more functions will be incorporated in 2004/05.

2.3.3 People

The re-organisation has inevitably meant a significant amount of upheaval for our people with many people changing roles and moving to new work locations. A number of redundancies were also required particularly amongst administrative staff because of the introduction of SAP and the efficiencies created through the Shared Services Centre.

2.4 Financial Out turn

The following table shows the latest forecast out turn against the 2003/04 budget and 2002/03 actual results.

£m	Actual	Budget	P11 F'cast
INCOME	2002/03	2003/04	2003/04
Property Investments	23.4	22.9	24.5
Leisure	18.6	23.4	20.7
Restoration	27.3	17.5	13.9
Core Waterway	35.9	36.6	41.4
Ventures	2.4	1.0	1.0
Corporate Services - Overheads	2.1	0.0	0.0
TOTAL DIRECT INCOME	109.7	101.4	101.5
Government Grant	82.0	91.5	93.6
TOTAL INCOME	191.7	192.9	195.1
EXPENDITURE			
Payroll	57.4	62.4	61.2
Staff Related Costs	12.6	8.3	10.7
Materials	6.6	5.4	7.6
Contract	81.5	76.5	70.3
Operational Costs	11.2	10.7	9.5
Rent, Rates & Utilities	4.5	6.7	7.3
Professional Fees	15.4	10.4	14.2
Outsourcing	0.0	2.1	2.7
Office Services	5.2	4.3	3.9
Publicity	3.4	3.8	4.3
Cost of Goods Sold	1.6	2.0	2.1
Own Work Capitalised	(1.6)	(1.0)	(0.1)
Other Costs	3.5	2.8	3.3
Priorities	9.0	5.0	5.0
TOTAL EXPENDITURE	210.3	199.4	202.0
Profit/(Loss) before Interest	(18.6)	(6.5)	(6.9)
Interest Payable/(Receivable)	(0.2)	2.2	(0.3)
Profit/(Loss) after Interest	(18.4)	(8.7)	(6.6)
Transfer to/(from) realised capital reserves	0.0	0.0	(1.1)
Profit/ (Loss) after Transfers	(18.4)	(8.7)	(5.5)

Note: To enable a direct comparison with last years plan and the management accounts the table above has not been restated to reflect the accounting changes in restoration and ventures business areas.

2.4.1 Income

2.4.1.1 Property Investments £24.5m (03/04 budget £22.9m)

Property income is forecast to end the year £1.6m higher than budget. This is primarily the result of timing differences in the disposal of development properties that have current rental streams attached to them and the investment of the Liverpool Dock dowry.

2.4.1.2 Leisure £20.7m (03/04 budget £23.4m, including BWML £3.6m)

Leisure income (including BWML) is £2.7m behind budget. There are three main reasons for this:

- The original budget included a speculative £1m of income that was to reflect miscellaneous initiatives in existence but not yet planned in detail when the budget was set. The decision was subsequently taken to focus instead on key priorities of establishing BWML and the Pub Partnership. These projects are on plan but will not yield additional income in 03/04.
- Lower moorings and craft licence income when:-
 - i. Assumptions of mooring growth proved over optimistic
 - ii. Evasion rates temporarily increased during the period of restructure and early system issues with SAP.
- Lower than expected takings at the visitor centres, particularly Anderton.

2.4.1.3 Restoration £13.9m (03/04 budget £17.5m, including non-restoration 3rd party funded works £13.1m)

Forecast income from 3rd party funded regeneration projects is lower than budget due to slower than expected progress on the Bedford to Milton Keynes link and Cotswolds canals projects. The Bedford to Milton Keynes will now not progress in the way previously envisaged and consequently we have taken the decision not to financially support further work-up of this project. The Cotswold canals restoration is still receiving in principle support from the HLF however they have not yet committed funding.

2.4.1.4 Core Waterway £41.4m (03/04 budget £36.6m)

Forecast income is higher than budget due to £2.4m additional income following the conclusion of negotiations with electricity and gas companies, £0.6m additional maintenance agreement contributions and £1.2m additional income relating to the release of deferred income from the balance sheet for the Liverpool Docks dowry to match the related maintenance expenditure.

2.4.1.5 Ventures £1m (03/04 budget £1m)

Income from ventures is in line with budgeted expectations.

2.4.1.6 Grant £93.6m (03/04 budget £91.5m)

Government grant is £2.1m higher than budget. This is entirely due to additional one off funds from the Scottish Executive (SE) to fund specific works in Scotland.

The total Scottish Grant is £2.2m ahead of BW budget but £4.2m (50%) up on the allocation for 03/04 year declared by the SE at the start of the year.

2.4.2 Expenditure

2.4.2.1 Payroll and Staff related costs £71.9m (03/04 budget £70.7m)

Payroll and staff related costs together are £1.2m more than budget. This is a result of the business restructure during the year. Staff related costs include one off redundancy and relocation costs and are therefore £2.4m ahead of budget. Provision was made in the overall

budget for these costs but due to the confidential nature of the restructure prior to announcement the costs were held in contingency and not included in the staff related costs budget figure.

Payroll itself is £1.2m below budget as recruitment previously planned was superseded by the restructure.

2.4.2.2 Materials and contract £77.9m (03/04 budget £81.9m)

Materials and contract expenditure reflects the additional grant from the Scottish Executive offset by lower restoration activity elsewhere. The remaining variance is accounted for primarily by contingency amounts set aside for business reorganisation, but included within the original contract line. These amounts move to the appropriate lines as expenditure is incurred. See also 2.2.2.1.

2.4.2.3 Professional fees £14.2m (03/04 budget £10.4m)

Professional fees are £3.8m higher than budget. Within the overall increase there is £0.7m of Wood Wharf work up fees. Costs of this type have traditionally been capitalised against the increase value created in the scheme in question. Revised accounting standards now mean this is no longer possible and the costs have to go through the P&L account.

More rapid progress than envisaged on Pub Partnership and BWML set up have also resulted in higher fees in this year than budgeted. A further set of fees was incurred in the restructure, including the reconfiguration of SAP to match the new structure.

2.4.2.4 Operational costs £9.5m (03/04 budget £10.7m)

Operational costs are lower than budget due to reduced depreciation as a result of delayed operational capital spend particularly the reduction in purchasing of IT equipment in advance of the desktop review.

2.4.2.5 Publicity £4.3m (03/04 budget £3.8m)

Publicity costs are £0.5 m higher than budget primarily from additional marketing spend in West Midlands, Yorkshire and BWML.

2.4.2.6 Rents, Rates & Utilities £7.3m (03/04 budget £6.7m)

Rent, rates & utilities are higher than forecast due to new premises taken on as a result of the restructure and the inevitable delay period before vacant properties can be either sold or let. All office premises are in the process of being reviewed and the more expensive and vacant properties addressed during 2004/05.

2.4.2.7 Net Interest receivable £0.3m (2003/04 budget £2.2m net payable)

Interest receivable is higher than budget due to interest received on utility agreements' arrears payments and additional interest on the increased cash deposits as a result of the Albert Dock dowry.

3 THE NEW PLAN FOR 2004-05 TO 2006-07

3.1 Main changes from Last years' plan

A number of events have occurred during the last year which have impacted on the business and meant that certain assumptions and estimates made in last years plan for 2004/05 need to be updated. The following changes are relevant:

- 3.1.1 Following the re-organisation and the introduction of SAP we have much greater insight into how the business spends its money. We have had concerns that our overheads as a proportion of total expenditure were becoming too great, but until now it had proved impossible to rectify this without undue risk. We now want to use the greater transparency and focus made possible by the re-organisation to tackle this issue in a managed way.

The first year of this plan sees income reduce from £195m to £171m. Most of this reduction was known and we had begun to take action on our overheads including payroll during 2003/04. The unexpected announcement by DEFRA of a £2.5m (£3.7m with inflation) cut in our expected grant for 2004/05 made us accelerate reductions in overhead, particularly payroll.

Accordingly, to achieve the strategic plan objectives, whilst properly managing financial risk, we will undertake a one-off exercise to re-balance the cost base in favour of variable rather than fixed costs. This will include further consolidation of processes into shared services, and examination of alternative Head Office arrangements. As a result of these changes payroll costs in particular will be significantly lower than in previous plans.

This prudent corporate contingency planning will safeguard the arrears spend if income targets come under pressure, and enable a programme of focused investment in priorities designed to drive the long term strategy.

All senior managers have been involved in this process which has been described in greater detail to the Board outside of this plan. We believe that the loss of jobs, whilst regrettable, is both unavoidable and achievable without disproportionate risk. However, for the early part of the year in particular, there will inevitably be some further disruption to the business.

- 3.1.2 In last year's plan we included cash grant of £73.7m for 2004/05 which assumed DEFRA base grant would increase by £1.2m for inflation on the existing baseline. Due to substantial financial pressures within DEFRA our baseline grant has now been reduced by £2.5m from 2003/04 levels (£3.7m below last year's plan) to £70m (including Scottish Executive grant of £10.9m). Full details of grant issues appear in Appendix I.
- 3.1.3 We have continued to place safety improvement at the top of our agenda. An interim manager was recruited specifically to launch and implement a safety transformation programme. The embedding of a new safety culture will continue throughout 2004/05 to achieve the scale of improvement necessary to meet our new benchmarking target based on Construction Industry Safety Benchmark Data produced annually by the DTI.

As a result of a new strategy focusing attention on assets with a high consequence of failure (COF) we have increased the arrears spend in this plan period.

- 3.1.4 Progress on securing funding for major restoration schemes during 2003/04 has been slower than expected and our new processes have challenged previous forward income estimates. This has caused us to revise downwards income planned during this plan period. As mentioned previously we have decided to include only major restoration schemes within this business area (i.e. those recognised as priorities in the Network 2025 Strategy). We have moved other miscellaneous third party funding into core waterway income. This is a closer match with how the schemes are managed in the business. It also ensures that there is maximum transparency in our commitment and achievements in both areas. The relevant business area pages that follow contain the restated figures.
- 3.1.5 With pressure from the trade to demonstrate no cross subsidy between funding for statutory purposes and our marina business we decided to put our marina business into a separate subsidiary company to act at arms length from BW. This will demonstrate in an open and transparent manner that there is no cross subsidy and will drive improved commercial performance enabling us to grow the economic value created by this business. Leisure figures that follow have been restated to the new basis.
- 3.1.6 Premises costs have temporarily increased during 2003/04 as a result of the reorganisation during 2003. This resulted in some new offices being taken on. Old offices are now in the process of being prepared for disposal so that by the end of this 3 year plan premises costs are significantly reduced from current levels.
- 3.1.7 In last year's property business area we included plans for small scale property self development in London which will now all be undertaken by the H2O Urban joint venture. Dividends receivable from this venture are now included within the ventures business area.
- 3.1.8 In December 2003 the ISIS business plan was updated to reflect the latest knowledge and potential about each site and status of the market. This resulted in a re-phasing of expected profits returning to BW which have now been reflected in this plan.
- 3.1.9 The plan reflects the lower value (£890k) of our contract with TWT. The plan provides for this size of contract over the 3 year period with some repayment of the £350k debt. We intend to press TWT to require less support from us over the plan period but have not planned for this in the figures.

3.2 Planned Performance against Critical Success Factors

The critical success factors for the delivery of this three-year plan are:

Critical Success Factors

- Maintain asset integrity / reliability and in particular deliver arrears programme in line with consequence of failure strategy.
- Deliver greater self-sufficiency particularly growing property, ventures and leisure business areas.
- Embed new culture within the business particularly with regard to safety, openness and accountability, sustainability and commercial awareness.
- Ensure vision, strategy and 3-year plan are understood throughout the organisation and everyone knows and accepts their part in delivering them.
- Achieve planned outcomes from completed restoration schemes.
- Achieve planned outcomes from End to End Review.

3.2.1 Performance Indicators (work in progress which will be finalised in September as part of the strategy plan review)

A 'dashboard' of performance indicators is in the process of development to show performance against our vision and each of the critical success factors. The indicators currently planned are shown below but the list may be revised as we complete this work.

Dashboard of Performance Indicators against the vision and critical success factors

Vision Statement: Our ambition is that by 2012 we will have created an expanded, vibrant, largely self sufficient waterway network used by twice as many people as in 2002. It will be regarded as one of our most important and valued national assets. Visitors will be delighted with the quality of the experience and as a consequence many will become active participants.

- Growth in footfall measured at (30?) agreed key locations.
- % of people surveyed assessing waterway visit as excellent.
- % of people surveyed recognising waterways as 'a valued national asset'.
- Reduced business mileage
- Reduced energy consumption

Maintain asset integrity / reliability and in particular deliver arrears programme in line with consequence of failure strategy.

- Number of kilometres below target water availability and quality.
- % of AIP (Asset Inspection Procedures) inspections completed.
- Net number of assets moving to an improved condition category.
- Number of assets requiring unplanned reactive works in period.

Deliver greater self-sufficiency particularly growing property, ventures and leisure business areas.

- EVC of profit generating businesses compared to plan.
- Major ventures formation: performance against project critical path.
- Growth in recurring directly earned income: year on year and compared to plan.
- Change in the number of boats licensed.
- Net number of permanent BW moorings added.
- % of BW moorings occupied.
- Value of investment & disposal deals closed as % of full year targets.
- Weighted IRR of investments – approved & deals closed.
- Variance from planned acquisition and disposals mix.

Embed new culture within the business particularly with regard to safety, openness and accountability, sustainability and commercial awareness.

- Annual rolling average of reportable staff accidents.
- % of total complaints resolved locally within 20 days.
- Baseline core waterway cost per Km.
- Corporate services costs as % of turnover.
- Total fixed costs to turnover ratio.
- Reduction in average cost of high COF assets removed from the list of statutory arrears assets.

Ensure vision, strategy and 3-year plan are understood throughout the organisation and everyone knows and accepts their part in delivering them.

- Number of Director visits to waterways and Chief Executive Briefings to discuss and receive feedback on how well the vision, strategy and plans are understood.
- Number of articles in BW monthly and Intranet page impressions dealing with vision, strategy and plans.
- Absence days per employee.
- % employee turnover.
- % employees considered as suitable for development to senior management and above.

Achieve planned outcomes from completed restoration schemes.

- % planned outputs delivered by completed restoration schemes.
- % of planned 3rd party funding contractually committed (forward order book).
- Size of pipeline for future dowry contracts.

Achieve planned outcomes from End to End Review.

- Positive report from the review committee.
- Contractual relationship and achievement of greater commercial freedoms.

3.2 Financial Performance by Business Area

3.3.1 Summary

<i>Figures in £m</i>	2003/04	2004/05	2005/06	2006/07
Profit Generating Businesses				
Contribution after Depreciation...				
- Property	17.5	17.9	20.8	23.4
- Leisure	11.3	10.9	11.7	12.9
- Ventures	(1.9)	(1.4)	3.2	3.7
Total	26.9	27.4	35.7	40.0
Value Consuming Businesses				
Net Cost after Depreciation...				
- Core Waterway	(96.9)	(65.4)	(68.9)	(78.2)
- Corporate Services	(30.1)	(25.6)	(23.5)	(23.5)
- Restoration	(0.3)	(0.9)	(0.5)	(0.3)
- Contingency	-	(3.9)	(5.0)	(4.5)
Total	(127.3)	(95.8)	(97.9)	(106.5)
BW Group Results				
Net Operating Result before Grant	(100.4)	(68.4)	(62.2)	(66.5)
- Net Interest Payable	0.3	(3.4)	(3.3)	(3.1)
- Grant	93.6	71.3	73.8	73.8
- Transfer to Capital Reserve	1.1	1.4	-	0.1
- Funds for Priority Investment		(5.0)	(8.3)	(4.3)
Accounting Net Result	(5.4)	(4.1)	(0.0)	(0.0)

EVC Summary				
- Property	20.3	20.7	24.2	22.5
- Leisure	10.8	10.2	11.0	12.2
- Ventures	(2.9)	(3.0)	1.8	1.9
- Core Waterway	(98.4)	(67.3)	(70.8)	(80.1)
- Corporate Services	(31.3)	(26.9)	(23.6)	(23.6)
- Restoration	(0.3)	(0.9)	(0.5)	(0.3)
- Priorities & contingency	-	(8.9)	(13.3)	(8.8)
Business Area Total	(101.8)	(76.1)	(71.2)	(76.2)

3.3.2 Value Creation by Business Area

Profit Generating Businesses

Figures in £m

	2003/04	2004/05	2005/06	2006/07
Property				
- Income	24.5	25.8	28.0	30.6
- Controllable Costs	6.7	7.7	7.0	7.0
- Contribution before Depreciation	17.8	18.1	21.0	23.6
- Depreciation	0.3	0.2	0.2	0.2
- Contribution after Depreciation	17.5	17.9	20.8	23.4
- EVC	20.3	20.7	24.2	22.5
Leisure				
- Income	17.1	18.8	20.4	22.0
- Controllable Costs	5.6	7.7	8.3	8.7
- Contribution before Depreciation	11.5	11.1	12.1	13.3
- Depreciation	0.2	0.2	0.4	0.4
- Contribution after Depreciation	11.3	10.9	11.7	12.9
- EVC	10.8	10.2	11.0	12.2
Ventures				
- Income	4.6	8.4	13.8	17.0
- Controllable Costs	6.3	9.7	10.5	13.2
- Contribution before Depreciation	(1.7)	(1.3)	3.3	3.8
- Depreciation	0.2	0.1	0.1	0.1
- Contribution after Depreciation	(1.9)	(1.4)	3.2	3.7
- EVC	(2.9)	(3.0)	1.8	1.9

Economic Value Consuming Businesses

Figures in £m

	2003/04	2004/05	2005/06	2006/07
Core Waterway				
- Income	54.5	42.9	42.7	41.1
- Controllable Costs	148.1	105.6	108.6	116.2
- Net Cost before Depreciation	(93.6)	(62.7)	(65.9)	(75.1)
- Depreciation	3.3	2.7	3.0	3.1
- Net Cost after Depreciation	(96.9)	(65.4)	(68.9)	(78.2)
- EVC	(98.4)	(67.3)	(70.8)	(80.1)
Corporate Services				
- Controllable Costs	26.8	24.3	22.4	22.3
- Net Cost before Depreciation	(26.8)	(24.3)	(22.4)	(22.3)
- Depreciation	3.3	1.3	1.1	1.2
- Net Cost after Depreciation	(30.1)	(25.6)	(23.5)	(23.5)
- EVC	(31.3)	(26.9)	(23.6)	(23.6)
Restoration				
- Income	0.8	7.8	22.1	23.0
- Controllable Costs	1.1	8.6	22.5	23.3
- Net Cost before Depreciation	(0.3)	(0.8)	(0.4)	(0.3)
- Depreciation	-	0.1	0.1	-
- Net Cost after Depreciation	(0.3)	(0.9)	(0.5)	(0.3)
- EVC	(0.3)	(0.9)	(0.5)	(0.3)
Priorities Fund				
- Controllable Costs	5.0	5.0	8.3	4.3
Contingency				
- Controllable Costs	-	3.9	5.0	4.5

3.3.3 Commentary

The Business Area performance over the three plan years is summarised in the table with 2003/04 figures for comparison. More detailed financial commentaries appear under each Business Area in Section 4 of this plan.

The figures need to be considered in the context of a major exercise as part of the latest planning round to establish thoroughly robust cost identification. By taking advantage of the restructure and the introduction of SAP more accurate cost allocation has been possible, and we now have a very sound baseline to go forward from.

One consequence of this work however has been the need to restate figures for prior periods to enable forward comparison on a like for like basis.

The main changes effecting the table are:-

- Marina business now included in Ventures in all years.
- Third Party Income not related to 2025 Vision schemes now included in Core Waterway.
- Relevant parts of Technical Group now charged directly to Core Waterway.
- Leisure marketing costs charged directly to Leisure.
- Internal charging between Business Areas (particularly Corporate Services and Core now replaced by direct budgeting).

For these reasons the figures in the table will not reconcile directly to the 2003/04 management accounts.

Taking account of these changes, the profit generating businesses achieve a contribution after depreciation of £27.4m in 2004/05 (an increase of £0.5m (2%) on 2003/04 as restated) increasing to £40m in year three.

Profitability (on this measure) moves from 51% in 2004/05 to 57% in 2006/07. Performance in restated 2003/04 was 52%. The small drop in profitability in the first year is caused by increased costs within BWML where higher revenue is planned to follow an initial increase in operational gearing.

The strategy to deliver increased profitability based on tight control of costs whilst achieving significant growth in revenue across all the profit generating business creates the improved profitability referred to above in the second and third year of the plan.

In the value consuming business, controllable costs reflect recent action to rebalance the cost base and further action to come on issues such as occupied office costs. The main source of growth in costs comes from increased arrears spend within core in line with the Consequence of Failure strategy.

The Priorities Fund will be allocated by due process during the year, and expenditure will be kept within this heading as a virtual business area to ensure maximum transparency and effective control of this valuable resource.

Following the logic of the cost base rebalancing exercise, costs charged to the priorities fund will not be of a recurring nature. We are holding a single corporate contingency reserve to ensure that we can deal with issues arising in what is a challenging plan to deliver.

The creation of both these funds creates the minimum head room necessary to deliver the 10 Year Plan. The amounts included will, by definition, move from year to year. We plan to use the End to End Review to secure more flexibility in our ability to carry unspent amounts forward across financial years.

EVC performance reflects the accounting results and the latest expectations on capital growth from our property investments. The overall EVC results are highly dependent on the growth in capital values within the property portfolio. This figure in turn is largely driven by the wider property market, particularly, in the case of the investment estate.

Individual Business Area EVC's are shown in the relevant tables within Section 4 of this plan. In line with adjustments made to the accounting results, cost of capital charges, and hence EVC, has been calculated to reflect up to date allocation of assets to business areas. Comparative figures have therefore been restated where necessary.

3.4 Capital Expenditure

3.4.1 Commercial capital expenditure

Commercial expenditure priorities

- Implement the Commercial Investment Strategy.
- Maximise opportunities for strategic (early) investment linked to regeneration.

£m	Actual 2002/03	Budget 2003/04	Forecast 2003/04	Budget 2004/05	Plan 2005/06	Plan 2006/07
Asset only investment	15.2	44.8	30.8	14.0	11.0	11.0
Shared risk property (development & JV)	0.0	0.0	25.2	14.0	11.0	11.0
Shared risk non property (Leisure)	0.0	0.0	0.8	6.0	6.0	6.0
Directly managed businesses	0.0	0.0	3.0	6.0	7.0	7.0
Total Commercial capex	15.2	44.8	59.8	40.0	35.0	35.0

Note: New analysis from 2003/04 in line with commercial investment strategy

	Actual 2002/03	Budget 2003/04	P10 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Disposals	31.2	32.4	22	35	35	35

Financial Commentary

The commercial investment strategy adopted by the Board in June 2003 recognises that increasingly our assets should generate higher returns and show medium risk in both property and non property sectors. A smaller proportion of assets will be held either as low risk passive investments or as high risk directly managed enterprises. Accordingly, the planned split of acquisition spend over the plan period is 30% into asset only investment, 30% into shared risk property, 20% into shared risk non property and 20% into directly managed enterprises.

In 2003/04 we had additional funds to invest from the Liverpool Docks dowry, the majority of which was invested into substantial asset only investments to fund future maintenance liabilities of the docks. We also invested heavily into our growing joint ventures rather than into leisure activities, as we continue to clarify our strategy for directly managed businesses.

Commercial Commentary

Commercial capital expenditure will be financed predominantly from disposal proceeds and reinvested in investments, to create more economic value. Disposals will predominately be from the investment and development property sectors. Investment will be spread as follows:

- Development properties to generate capital growth, achieve regeneration objectives and create a pool of assets for future disposal.
- Investment and leisure properties for earned income.
- Leisure businesses such as moorings and attractions to generate income and provide waterway related facilities to customers.
- Equity into our growing number of ventures, both JVs and subsidiaries.

Milestones	
• Commercial capital investment of £40m achieved	March 05
• £35m disposal proceeds achieved	March 05

3.4.2 Operational capital expenditure

Operational capital expenditure priorities	
• Replace old and life expired operational floating plant and machinery.	

£m	Actual 2002/03	Budget 2003/04	Forecast 2003/04	Budget 2004/05	Plan 2005/06	Plan 2006/07
Operational capex	3.4	4.3	4.5	1.3	1.0	1.0
	3.4	4.3	4.5	1.3	1.0	1.0

Financial Commentary

The forecast operational capex of £4.5m in 2003/04 comprises primarily, SCADA telemetry equipment, capital connected with office relocations in the business reorganisation and commercial vehicles.

With the introduction from April 2004 of an IT outsourcing contract there will not be the need for the same historic levels of IT capex. The table above shows a nominal amount of operational capex for assets that fall outside of the leasing arrangements now in place.

Floating plant will be acquired under operating leases already established.

Milestones	
• Floating plant replacement programme launched	June 04
• £3m of floating plant and equipment acquired	Dec 04
• £5m of floating plant and equipment acquired	June 05

3.5 People

3.5.1 People

People priorities

- Improve the quality of objective setting throughout the business ensuring alignment to the strategic business plan objectives.
- Attract and retain the kind of people needed to develop the business.
- Continue to reward people based upon their contribution and manage employee organisations.
- Continue the development of customer / visitor focused terms and conditions and in particular the introduction of flexible working arrangements.
- Continue to develop the occupational health initiative started in 2002/03 and through this achieve further reductions in sickness absence.
- Improved internal communications with all our people.
- Create a more open, organisation with less status and barriers to two-way communication.

The importance of our people cannot be overstated. In 2003 BW was recognised as one of the best companies to work for by a national Sunday Times survey. The organisational restructure during 2003/04 inevitably lead to a period of uncertainty for many of our people and this has been reflected in surveys undertaken this year. We did not achieve a place in the Top 100 for 2004 and this may in part be due to the effects of restructure during 2003. We know however that our employment package and terms and conditions of employment are competitive. The challenge is now to re-establish the confidence of our people within the new organisational framework. We are confident that this is the right framework for the future success of BW and therefore also confident that in time the morale and satisfaction of all our people will exceed the level before the re-structure. The redundancies planned for early in the new financial year will inevitably delay this recovery. We will continue to listen to our people, communicate openly and honestly, and ensuring people are rewarded fairly. We will try to help people to reach their full potential. See also 4.4.2.1 on safety issues.

People milestones

- | | |
|---|----------|
| • Introduce cascade of key objectives. | June 04 |
| • Review and improve Performance and Development Review process. | Sept 04 |
| • Complete and begin improvement actions from autumn employee survey. | Dec 04 |
| • Sunday Times top 100 status regained. | March 05 |
| • Achieve targeted absence reductions. | June 05 |

3.5.2 People - Equal opportunities

In 1997 0.5% of our employees were from ethnic minorities and around 20% were female. In 2003/04 ethnic minority employee levels have increased to 1% of our workforce and female employees represent 24% with an increasing proportion of women moving into senior management positions. 20% of our total senior management group are female and 24% of the senior management positions in our waterway business units are female.

BW seeks to engage with all communities and we are active around the country working on local initiatives to promote BW in the community. Our publication "Waterways for People" illustrates our

commitments in this area. As we expand our activities and continue to grow our business we will be able to continue to improve the balance of our workforce and to seek to reflect the diversity of the society we serve. Raising our people's cultural and diversity awareness is a key ongoing action.

Milestones	
• Diversity awareness training for key managers	Dec 04
• Monitoring guide of 25% women in senior management	Dec 05
• Monitoring guide of 2% ethnic employees	Dec 05

3.6 Risks and Opportunities

3.6.1 Risks

3.6.1.1 Government grant

At the time of writing we have not received confirmation of DEFRA grant beyond March 2005. However, indications are we should not expect increases in line with those requested. We have therefore assumed that DEFRA grant will continue at 2003/04 baseline levels and that the £2.5m cut in 2004/05 will be reinstated from 2005/06 onwards. See also Appendix I.

Scottish Executive base line grant has been confirmed at £8.9m for each year of the plan. The minimum level of grant required in Scotland is substantially more than this level, and while the Scottish Executive have indicated that they accept our case no firm commitments have been made. For each of the last two years we have been successful in receiving additional grant allocations through the year and have therefore made a similar assumption for each of the plan years. There is still a risk here however as it very much depends upon surplus funds being available from within the Scottish Executive.

3.6.1.2 Telecoms

The difficulties and over capacity in the telecoms sector are ongoing. Easynet appear to be in a stronger position than many other operators. Provided Easynet remain financially sound our annual wayleave income of £6.5m from this source is expected to be secure.

We know that the agreement pays a rate significantly above the market and we must be particularly vigilant to avoid doing anything that could result in Easynet having grounds to end the agreement. In particular, extra emphasis is being placed on avoiding accidental damage to the fibre during unrelated works.

3.6.1.3 Pension Fund Triennial Valuation

A triennial valuation of the Pension Fund will be undertaken in the first quarter of 2004/05 by external actuaries.

It is likely that a deficit will exist in the funding of the Pension Scheme. A key priority for 2004/05 is the early identification of an appropriate way to deal with this.

This plan excludes any additional costs to BW from this exercise as it is currently too early to reliably predict the outcome. We will be seeking to minimise the financial impact consistent with our HR values.

3.6.1.4 Wood Wharf £1m entry premium

London Region estimate that we will be able to negotiate an entry premium from a joint venture partner of £1m to be receivable in 2005/06, however this will depend upon the timing of a JV being established and the amount of competition amongst potential partners.

3.6.1.5 Brent Reservoir £1m

We have been notified by the Reservoir Inspector that we need to carry out £1m of improvement works to Brent Reservoir. These works are primarily concerned with protecting the reservoir at times of flood so we are pressing the EA for the money. There is a huge variation in the criteria used by the EA and the Reservoir Inspector to judge what is needed to deal with the flood risk. The extent of the work, its timing and any EA contribution are all so uncertain we have not budgeted for any income or expenditure. There is a risk that some works even if they are preparatory may be required this year.

3.6.1.7 Growth Business

Aggressive plans are in place for a number of new businesses such as ISIS, BWML, Waterside Pub Partnership and our new Telecoms Mast Partnership. Also growth of moorings and craft licence income is being aggressively targeted. There are clearly risks in underachievement in these areas.

3.6.1.8 Regulation

National and European legislation continues to place greater but immeasurable burdens on us as a navigation authority and public body. A range of new regulations will impact for example the Water Framework Directive, the Water Act and contaminated land/waste management regulations. The impacts will be clearer as the full requirements emerge. We have planned for greater resource in these areas but there is a risk it will not be sufficient.

3.6.1.9 Restructuring

The redundancies mentioned previously and the relatively young business unit structure does create greater risks with regard to effective management and the morale of our people. We believe this is mitigated by the benefits of the new structure, SAP and the quality of our senior managers. Nevertheless a sizeable risk to the business remains.

3.6.1.10 Restoration Schemes

There is a risk in the income plan relating to income for restoration schemes. Issues with funding bodies, outside of our control, often cause delays in funding. Highly speculative schemes have not been included in this plan, but there is still a risk on timing. The Cotswolds restoration in particular is currently experiencing difficulties in securing funding. If this is not resolved soon it will have an impact on (top line) figures in this plan.

The exposure is only on turnover however, as expenditure slips correspondingly if income is delayed. There is a presumption that staff costs currently covered by third party funding can be absorbed into vacancies in the core business if the funding comes to an end.

3.6.1.11 Business rates

BW's current treatment for Business rates is under review by the Rating bodies across the UK. Work is in hand to achieve a satisfactory outcome, but the worst case scenario is for significant additional costs from April 05 of c£1m + pa.

3.6.1.12 Canary Wharf Taxation

The 2001/02 corporation tax year containing the Canary Wharf density cap has not yet been formally signed off by the Inland Revenue. The risk element is the base cost calculation for capital gains purposes. We believe we will achieve a satisfactory outcome, but if not, there could be additional tax to pay. This would have to come out of commercial capital otherwise invested for the purposes of this plan. Very worst case scenario (low probability) is a £10m tax bill.

3.6.2 Opportunities

3.6.2.1 East Manchester – New Islington Development

New Islington Development is a new mixed-use development proposed by New East Manchester which involves the creation of a new area of waterspace. The waterspace will be connected to our water and the proposal is for BW to undertake the operation and maintenance of the waterspace potentially funded through a dowry.

3.6.2.2 Peel Holdings

We are building very good relationships with Peel Holdings that covers Gloucester Quays JV, the Bridgewater Canal management and dowry, Weston Point Docks, Bowling redevelopment, our disposal of Ellesmere Port (see 3.6.2.5) and other smaller initiatives. There is the potential to create a powerful and productive strategic alliance with Peel over the plan period.

3.6.2.3 Contract entry premium for Pubs Partnership

Our business plan for this partnership does not include the possibility of a contract entry premium, however we continue to ask for such a payment from bidding parties.

3.6.2.4 Initial portfolio transfer for Pubs Partnership

Our business plan for this partnership assumes transfer of our existing portfolio of pubs and sites at BAV (approximately £18m). Any premiums achieved on this assumption, whether structured as revenue or capital, is an upside opportunity.

3.6.2.5 Sale of Ellesmere Port

Our property disposal plans are projected at £35m p.a. over the next three years. Not included in this is the opportunity, under discussion currently, to dispose of our holding at Ellesmere Port to Peel Holdings. Current BAV is £10m, but it is hoped that more can be achieved from a sale. Reinvestment of these proceeds at better yield is an upside opportunity.

3.6.2.6 Accelerated investment into Camden Interchange

Our £22m acquisition of Camden Interchange is planned over the first two years of the plan. Accelerated availability of capital, e.g. from Ellesmere Port disposal (above), and further dowries (below) may allow acceleration of this investment in Camden and hence earlier receipt of the investment returns than in the plan.

3.6.2.7 Falkirk Sponsorship Contract

The plan currently excludes the previously anticipated sponsorship income from Barr. However, we are vigorously investigating sponsorship opportunities, which if successful, may be able to spread beyond Falkirk. Any such success is an upside to the plan.

3.6.2.8 Utility income

During 2004/05 we will be negotiating with the water companies to agree both arrears and ongoing payments for surface water discharges based upon the Severn Trent settlement. We have planned backdated income of £1.5m from 2005/06 in respect of this. There is potential for this to be exceeded and that some could be achieved earlier than planned and the income accounted for in 2004/05.

3.6.2.9 Dowry Supported Acquisitions

A number of potential dowry supported acquisitions are currently in the early stages of being worked up e.g. Preston, Middlehaven, Swansea, Boston. If these can be successfully concluded with the dock owners there will be additional income from the dowry invested.

3.6.2.10 Further leisure businesses

Costs are provided for in 04/05 to investigate and hopefully identify a BW catering/retail proposition that could be rolled out (by us or others) to generate additional income in the latter part of the plan period (see 4.2.3).

3.6.2.11 Wood Wharf contract entry premium

Identified as a risk (above), but similarly could be (a) earlier and (b) larger than in the plan.

3.6.2.12 Resolution of Grangemouth water supply

Plan assumes no water supplied to BP at Grangemouth, nor any compensation for the loss of this contract. Both of these are still being progressed and may further result in unbudgeted income.

3.6.2.13 Operational Occupied Property

Potential for limited further upside (some benefit already planned for year 2 and 3) when BW occupied property disposal programme aggressively pursued.

3.6.2.14 Waterscape

Potential for significant increase in scale of Watrescape operation under various business models currently at an early stage of investigation by subsidiary management.

4. BUSINESS AREAS

This section presents the financial plan by business area and summarises key priorities and milestones on a quarterly basis covering an eighteen-month period. Progress will be reviewed against these milestones on a quarterly basis and milestones added to form a rolling plan.

4.1 Property Investments

Key property priorities

- Continue the disposal of low value and poorly performing property assets.
- Effective management of the interface with ISIS and other property based ventures.
- Continue strategic (early) acquisition of land in priority regeneration areas.
- Delivery of the commercial investment strategy including; acquisitions, disposals, portfolio mix and target returns
- Appropriate resourcing of property teams nationally.
- Introduce investment property inspection programme and actions to ensure value of our investment estate is maintained.
- More properties for Pub Partnership.
- New opportunities for ISIS.
- More efficient management of the property business area cost base.
- More efficient purchasing of external professional advice (e.g. re-tendering BAV report).
- Enhance value of major development sites.
- Effective management of investment estate to maximise value.
- Restructure management information reporting.

Property (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	23.4	22.9	24.5	25.8	28.0	30.6
Expenditure						
Controllable costs	4.2	4.4	6.7	7.7	7.0	7.0
Contribution before depreciation	19.2	18.6	17.8	18.1	21.0	23.6
Depreciation	0.2	0.2	0.3	0.2	0.2	0.2
Contribution after depreciation	19.0	18.3	17.5	17.9	20.8	23.4
Less 6% cost of capital charge	18.2	18.2	20.7	24.1	23.6	24.9
Profit / (loss) on property disposals	3.8	2.5	2.5	4.9	6.0	4.0
Unrealised gains / (losses)	21.3	17.1	21.0	22.0	21.0	20.0
Economic value created / (consumed)	25.9	19.7	20.3	20.7	24.2	22.5

Financial Commentary

The 2004/5 contribution from Property is 2.2% above that reported for the previous year. The benefit of higher income (+5%) from additional investment and rent reviews is partly offset by more robust cost allocation following the restructure and the introduction of SAP. All figures are net of the effect of properties transferring to ISIS.

Going forward from 2004/5 on a like for like basis on cost allocation, the contribution grows to £23.4m as costs are held largely flat during a period of top line growth.

EVC is planned to increase in 2004/05 reflecting the improved accounting result and increases in both profit on disposals, and predicted capital growth. There is an increase in the cost of capital charge reflecting the increased value of capital employed that partly offsets these increases. Notwithstanding the higher capital charge, growth in EVC remains ahead of the improvement in contribution in the first year.

In the subsequent periods EVC grows at a slower rate than contribution and in 2006/07 it reduces. This is because the cost of capital charges increase due to cumulatively higher capital values whilst growth from unrealised gains is predicted to reduce year on year reflecting anticipated market slowdowns. Changes in profit on disposal have a similar effect for the same reason.

Commercial Commentary

The establishment of a joint venture with Peel Holdings to develop Gloucester Quay is now planned to complete during 2004/05 and will result in lost annual income of £400k following the transfer of properties to the joint venture vehicle. The benefits from Gloucester Quay will not be received until outside of this 3-year plan.

During 2003/04 the £32.5m capital receipt from English Partnerships in respect of the Liverpool docks dowry has contributed towards the growth in property income and the capital invested in the property business area. There are no further planned injections of capital over this plan period, though other similar dowry payments are sought.

The above plan includes properties that may be transferred to the anticipated waterway pub partnership. As our plans for this venture become clearer over the next year and sites for transfer agreed it is likely that the above plan will need to be adjusted to reflect the movement of properties out of this business area into ventures. Similar adjustments may be needed to reflect rent receipts from BWML.

Property milestones

- Disposal receipts of £35m p.a.
- Investment target of £40m, £35m and £35m for 2004/05, 2005/06 and 2006/07 respectively.
- Controllable cost of property business area as proportion of income c.20% by third year.
- Disposal of 90 properties in 2004/05 of which 40 will be low value (less than £100,000).
- Disposals to ISIS of £30m over the three year plan (within the £35m p.a. total disposal target).
- Target for number of new opportunities for ISIS [2-4 new sites per year]
- Successful transfer of properties to Pub Partnership – September 2004.
- Complete 350 rent reviews by 31 March 2005.
- Sale of Ellesmere Port by June 2004.
- Investment Estate to have been fully evaluated against agreed criteria, for potential disposals in 2005/06 and onwards by June 2004.
- Wood Wharf successfully transferred to a new partnership vehicle by December 04.
- Gloucester Quay transferred successfully to joint venture with Peel Holdings – December 04.

4.2 Leisure

Leisure priorities

- Moorings strategy in place and income growth.
- Reduction of licence evasion.
- Priority site review.
- Integration of marinas and pubs into our visitor driven business
- Integration of Waterscape into our visitor driven business
- Falkirk masterplan
- Endorsement and roll-out of project experience design guidelines.
- Leisure development strategy e.g. catering/retail.
- Lowland Canal nodal strategy.

Leisure (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	14.9	19.6	17.1	18.8	20.4	22.0
Expenditure						
Controllable costs	5.0	7.5	5.6	7.7	8.3	8.7
Contribution before depreciation	9.9	12.1	11.5	11.1	12.1	13.3
Depreciation	0.1	0.4	0.2	0.2	0.4	0.4
Contribution after depreciation	9.8	11.8	11.3	10.9	11.7	12.9
Less 6% cost of capital charge	0.3	0.8	0.5	0.7	0.7	0.7
Economic value created / (consumed)	9.4	11.0	10.8	10.2	11.0	12.2

Financial Commentary

Turnover in 2004/5 is up £1.7m (10%) on prior year. Subsequent plan years see further growth of 17% over the next two years. The main areas of top line growth are the craft and moorings income together £3m p.a. higher by 2006/07 reflecting 4% p.a. growth in boat number assumptions and increased evasion performance. Increased takings in the Visitor Centres, particularly Falkirk, add a further £0.8m p.a.

There is a one off change to the cost base in 2004/5 that distorts the year on year profit comparison with 2003/4. Leisure marketing costs are now charged directly to the business area (previously all marketing was in Corporate Services). The 2003/04 budget figure included costs associated with speculative income subsequently removed (2.2.1.2) and retail work up costs not pursued in the year. Net of this, underlying controllable costs were £5.8m in the budget.

With the new marketing costs included, contribution is broadly level on the prior year, notwithstanding the 12% income growth. Second and third years costs are on a like for like basis. Further growth in turnover to £22m in 2006/7 drives increased profits reaching £12.9m by the third year. Profitability to income ratio improves from 58% to 59% over the 3 years. This compares to 54% in 2003/04, on a like for like basis.

EVC performance over the 3 years follows the accounting contribution with no changes in cost of capital anticipated. As a result EVC grows from £10.3m to £12.2m by 2006/07.

The change in cost of capital between budget and forecast in 2003/04 reflects changed investment assumptions from the time the budget was set.

Commercial Commentary

Our view of this area of our business is developing and changing. In line with strategic targets, the costs of increasing visitor numbers, developing new businesses, improving visitor quality and leisure market research (£2.1m) have been included in this business area.

The relatively high development costs reflect the early stage of our work which involves:

- working up plans for increasing visitor numbers
- improving consistency of visitor experience
- developing new leisure businesses (see 4.2.3 below).

4.2.1 Boats and Boating

Boats and Boating (£000)	Actual 2002/03	P 11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	12.8	13.3	15.0	15.7	16.5
Expenditure					
Controllable costs	1.2	1.7	1.4	1.3	1.4
Contribution before depreciation	11.6	11.6	13.6	14.4	15.1
Depreciation	0.0	0.0	0.2	0.1	0.1
Contribution after depreciation	11.6	11.6	13.4	14.3	15.0
Cost of capital charge	0.2	0.2	0.2	0.2	0.2
Economic value created / (consumed)	11.4	11.4	13.2	14.1	14.8

Financial Commentary

The table provides an extract from the Leisure Business area relating to craft licences and on line moorings only.

Planned increase in income reflects the strategy to increase boat numbers by 4% pa, revised moorings plans and a reversal of licence evasion increases that occurred during the changes in 2003/04.

Controllable costs are broadly level over the 3 years after reducing from 2003/04 following cost savings being identified.

EVC moves in line with accounting contribution as no significant changes in capital employed are planned.

Commercial Commentary

We have identified this as a priority area for concentration in the next 3 years. The Marketing & Communications Director will bring together different parts of the organisation to achieve the business targets focusing on:

- quality of boating customer experience (through Service Managers)
- increasing licence and moorings income to meet income targets (this requires growth in numbers of approximately twice the historical long term average)
- ensuring that licence evasion is reduced to 3% from current unacceptably high levels

In 2004/05 we will concentrate particularly on:

- introducing new customer focused waterway standards (by autumn 2004)
- reducing licence evasion to 3%
- successful introduction of trial moorings code to deal with overstaying on moorings and 'bridge hopping'
- planning of marketing campaigns to increase boat numbers and create moorings in the places customers demand
- creating moorings strategies for every waterway unit.

4.2.2 Visitor Attractions

Attractions (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	1.3	2.4	2.0	2.4	2.7	3.0
Cost of Sales	0.4	0.6	0.5	0.6	0.7	0.8
Gross Profit	0.9	1.8	1.5	1.8	2.0	2.2
Controllable costs	2.8	1.8	1.9	1.6	1.8	1.8
Contribution before depreciation	(1.9)	(0.0)	(0.3)	0.2	0.2	0.3
Depreciation	0.1	0.2	0.2	0.2	0.2	0.2
Contribution after depreciation	(2.0)	(0.3)	(0.5)	0.0	0.0	0.2
Less 6% cost of capital charge	0.3	0.2	0.2	0.2	0.2	0.2
Economic value created / (consumed)	(2.3)	(0.5)	(0.7)	(0.2)	(0.2)	(0.0)

Financial Commentary

The opening loss before depreciation is converted to a small contribution before depreciation in 2004/05. This is driven by top line growth through higher takings particularly at Falkirk as the site develops.

With gross margins and controllable costs broadly level on 2003/04 the benefit of the additional turnover is taken directly to profit. As a result, contribution before depreciation turns positive in 04/05. Net contribution moves to breakeven in 2005/06 and into a small profit in the third year by which time net operating margins are planned to be 6%.

EVC performance improves during the plan period with sufficient contribution in 2006/07 to achieve a breakeven position at EVC level compared to a value consumed of £0.7m in 2003/04.

Commercial Commentary

Falkirk, Anderton and Standedge have all been undergoing reviews recently for different reasons, but with the desired outcome of improving EVC.

Falkirk is looking at expansion of commercial activities on the site and a master plan for this is in production. Falkirk will also concentrate on maximising conversion of visitors to paying for boat trips with its increased capacity of new boats coming on stream and maximising retail spend in new facility.

Anderton review has recognised the need to keep visitor numbers up, but more importantly to enhance the capture of visitor spend from the footfall and to control operating costs.

Standedge has undergone a thorough review to address the multiple problems of lack of visitor numbers, poor conversion and high operating costs. As a result, the offer at Standedge will be dramatically remodelled to reduce its operating deficit, although because of contractual commitments to funding partners not all options are open.

Business plans for all three attractions to be systematically reviewed at the end of the operating season 2004 to look for enhancements that can be implemented in future years.

4.2.3 Development of new leisure businesses

A key part of achieving our ambitions, as set out in our 10-year strategic business plan is the promotion and facilitation of the waterways as a leisure destination, particularly for day visitors. This strategic objective needs to be balanced with:

- The available funding both for site enhancement and for marketing to potential visitors
- The development of commercial leisure related businesses, whether by BW, in partnership or by third parties under contract, that contribute towards self-sufficiency

Significant progress has been made during 2003/4 in a number of areas that are intended to form the initial backbone of our leisure business:

- Improved understanding of visitor needs, spend and management at our 3 major attraction sites.
- The formation of BWML and its business plan to grow the number of marina sites and their success as visitor destinations

- The progress on forming a waterside pub partnership and, if this is successful, the opportunity to “anchor” leisure destinations around these businesses
- The formation of Waterscape as both a significant marketing medium for leisure on the waterways and as a mechanism for sharing financially in the success of leisure based businesses based there.
- The development of design guidelines for BW's visitor destinations, under the heading of “Project Experience”

The evolution of these businesses will be the priority focus for enhancing our leisure business in the early part of this three year plan. It should be noted that the main commercial businesses here are reported under our “ventures” business are, rather than the “leisure” business area.

In addition, we are currently reviewing our previously identified “priority sites”. We believe that a number of factors have influenced the need for such a review:

- The creation of BWML and anticipated creation of the Waterside Pub partnership will lead to the emergence of other visitor focused site opportunities
- An increasing focus on site prioritisation in the restoration and property (regeneration) business areas allows the opportunity to join-up different approaches to site-prioritisation
- The “project experience” work to date has already been evaluating the different types of existing and potential visitor destinations within the BW portfolio

Early in 04/05 we intend to conclude this work, thereby ensuring a deliverable priority list of leisure destination sites, that draw on all the strands above. It is likely that we will focus, during this plan period on the enhancement of a small number of these.

Key to our plans to enhance these sites will be to combine “site management” objectives, that enhance the overall quality of visitor experience; “marketing” activities; that draw visitors to these sites; and “commercial leisure businesses”, that best utilise our emerging business activity eg BWML and pub partnership as well as our own mooring business, and/or attracting other businesses under contract.

We believe that the further enhancement of our leisure business, both from the perspective of enhancing visitor numbers and experience, as well as increasing commercial returns to BW, requires an additional area of business activity: catering / retail. Our approach to this area hitherto has been ad-hoc and has involved small scale own operated activities, franchised and tenanted activities. We intend, during the plan period, to develop a national approach to this opportunity, so it can be delivered speedily and profitably throughout the business. At this stage, we have not determined whether this should be through “own operation” (eg BWML), through partnership (eg waterside pubs), or through tenancies.

No income has been included in the three year plan for the development of new priority sites, nor from the implementation of a new catering / retail business.

• Complete priority site review	June 04
• Endorse Falkirk masterplan	June 04
• Endorse project experience guidelines	June 04
• Adopt approach to catering / retail business	Sept 04
• Formation of pub partnership	Sept 04

4.3 Restoration

Restoration priorities

- Align restoration priorities with property /regeneration/ventures priorities (explore land banking).
- Achieve funding for priority schemes identified in 2025 document.
- Introduce a risk based approach to ensure sustainability of restoration schemes.
- Abandon proposals with no prospect of meeting funding criteria.
- Establish and deliver new Scottish schemes to funding criteria.

Restoration (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	15.3	4.4	0.8	7.8	22.1	23.0
Expenditure						
Controllable costs	18.0	4.5	1.1	8.6	22.5	23.3
Contribution before depreciation	(2.7)	(0.2)	(0.3)	(0.8)	(0.4)	(0.3)
Depreciation	-	-	-	0.1	0.1	-
Contribution after depreciation	(2.7)	(0.2)	(0.3)	(0.9)	(0.5)	(0.3)
Less 6% cost of capital charge	-	-	-	-	-	-
Economic value created / (consumed)	(2.7)	(0.2)	(0.3)	(0.9)	(0.5)	(0.3)

Financial Commentary

Income growth reflects latest estimates from project managers of the likely quantum and timing of external funding for these schemes.

The significant uplift in the second year is dominated by the Liverpool link contributing some 40% of the increase in 2005/06 with c£2-3m pa increases in each of the major schemes. There is material risk in all these numbers as funding agreements are not yet in place, but Cotswolds and Bow Back Rivers are particularly susceptible.

BW contribution is minimal in line with agreed strategy.

Commercial Commentary

Having come to the end of the first tranche of priority restoration schemes it was appropriate during 2003-04 to review our priorities to ensure our attention is focused on those restorations of strategic

importance and where the likelihood of funding is highest. The review resulted in the preparation of the Network 2025 paper, which sets out our priority schemes.

Funding opportunities for restoration schemes are significantly less than they were 3 years ago which is reflected in the much-reduced planned income levels. Where projects do go ahead though we anticipate recovering all costs and where possible will achieve a profit margin. The following table shows income planned by scheme:

Restoration scheme (£m)	Total project value	2004-05	2005-06	2006-07
Liverpool canal link	15.8	1.0	7.0	5.0
Manchester, Bolton and Bury canal	14.3	0.6	3.0	4.0
Bow back rivers	28.5	0.5	2.0	3.0
Droitwich barge & junction canals	10.4	0.2	3.0	3.0
Cotswold canal	25.0	1.0	3.0	5.0
Montgomery Canal	5.5	0.5	1.0	2.0
Other projects	2.5	0.5	1.0	1.0
Port Dundas	5.6	3.5	2.1	
	107.6	7.8	22.1	23.0

Key Restoration milestones

- Cotswolds
 - Revised bid to HLF April 2004
 - Decision July 2004
 - Funding decision for SWRA August 2004
 - Construction works start May 2005
- Montgomery
 - Conservation Management Strategy completed and issued Sept 04
 - Submit funding applications December 04
 - Channel test site construction starts July 05
- Bow Back Rivers
 - IOC announces short list of candidate cities May 04
 - UDC formed May 04
 - IOC announces results July 05
- Liverpool Link
 - Receipt of planning permission August 04
 - Fund decision from stakeholders September 04
 - Construction starts April 05
- Manchester Bolton Bury
 - Funding decisions for stakeholders for Phase 1 September 04
 - Construction starts Phase 1 April 05
- Northern Reaches
 - Decision for NWDA for staged approach May 04
- Droitwich

HLF Stage 2 Bid	March 04
HLF Stage 2 Bid Decision	July 04
Advantage West Midlands Stage 2 Decision	Sept 04

4.4 Core Waterway

Core Waterway priorities are shown separately below for income and expenditure in Section 4.4.1 and 4.4.2 respectively.

Core Waterway (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	47.9	49.7	54.5	42.9	42.7	41.1
Expenditure						
Controllable costs	142.7	145.7	148.1	105.6	108.6	116.2
Contribution before depreciation	(94.8)	(95.9)	(93.6)	(62.7)	(65.9)	(75.1)
Depreciation	3.6	3.9	3.3	2.7	3.0	3.1
Contribution after depreciation	(98.4)	(99.8)	(96.9)	(65.4)	(68.9)	(78.2)
Less 6% cost of capital charge	1.1	1.5	1.5	1.9	1.9	1.9
Economic value created / (consumed)	(99.5)	(101.3)	(98.4)	(67.3)	(70.8)	(80.1)

Financial Commentary

Income reduces from 2003/04 levels that were enhanced by one off utility settlements, thereafter total core income is broadly level on the first year.

Costs in 2004/05 reduce by £42.5m from the previous year. This reflects lower grant of £18m (the ending of the additional government grant (£15m) plus the cut) and the reduced income as above (£14m). One-off asset repair costs c£3m are included in the 2003/04 numbers but not in 2004/05. The remaining £9m reduction reflects Core Waterway contribution to the cost base rebalancing exercise. However, it is likely that a significant proportion of the priorities fund established as part of that exercise will be spent on core areas during the year.

A number of costs have been properly identified as belonging to core waterway rather than other business areas and these are now reflected in the figures. Growth in costs in the second and third year is accounted for by increased arrears spend and slightly higher third party funded expenditure (matched by equivalent income). Baseline operating costs are held broadly level throughout the plan period.

EVC results follow the accounting contribution with the cost of capital charge expected to be broadly constant throughout the plan period. The charge has increased compared to 2003/04 due to further investment in Scada assets and a generally more accurate allocation of assets to business areas made possible by SAP.

Commercial Commentary

The largest elements of core waterway income are derived from operational property holdings and water sales. With the exception of third party contributions the costs associated with generating this income are very small compared with the cost of maintenance, as such income and expenditure are separated out below with separate priorities and milestones.

4.4.1 Core waterway Income

Core waterway income priorities

- Secure and grow utilities business.
- Achieve new major wayleaves / premiums.
- Identify profitable waterspace acquisition targets (dowries / management contract) and deliver to plan.
- Freight strategy including waste by water projects.
- Achieve settlement to Grangemouth water supply issue.
- Achieve strategic alliance with Peel Holdings and dowry from Coal Authority.

4.4.1.1 Utilities

The main focus of new business activity in 2004/05 will be to progress negotiations with water companies for payment for surface water discharges into our waterways and to establish our proposed new Mast partnership. A number of other smaller utility related business opportunities are also being explored, and crucially we will continue to maintain quality relationships to protect our income from the gas, electricity and telecoms industries.

4.4.1.2 Water Sales

The main vehicle for new large water sales agreements going forward will be channelled through Watergrid, which limits the potential for new BW sales. The main priorities for the BW water sales business will be to explore opportunities for smaller agreements, the efficient management of existing business and growing income where possible at contractual rate review points.

During 2004/05 we will also be seeking to resolve the opportunity for water supply to BP at Grangemouth. No income is included in the plan from this project, but we are still pursuing a variety of options.

4.4.1.3 Masts Business

Having terminated our Mast agreement with Ultramast at the end of 2003/04, we plan to enter a new partnership agreement with NET. Our projections assume the development of 150 masts on our sites by the end of the plan period, generating income of £0.5m.

The emergence of the G3 market, the plans by the telecoms operators for mast networks and the reputation of NET underpin our market share assumption, but clearly this new business area has more risk in achieving target.

4.4.1.4 Freight

We will continue to progress with the marketing strategy commenced in July 2003 to offer the main identified sectors access to the BW waterway system for use for carriage of freight.

We will:

- seek to protect viable wharves on our network and re-instate those in our ownership where there is a proven demand, and taking advantage of any available freight facility grants
- aim to provide inter-modal facilities at inland ports and wharves, working with potential freight carriers and other partners to ensure that waterborne freight becomes more accessible
- investigate the potential for transporting freight ourselves, possibly via joint ventures with existing operators or customers
- focus on the following sectors, which have the greatest potential for increasing freight activity:

Minerals - we have mapped the commercial mineral deposits adjacent to our network and will continue to work with aggregate suppliers to use water transport wherever practical

Waste and Recycling - the transportation of waste and recyclables by water has considerable potential, but for this to happen it will require a fundamental reorganisation of domestic and industrial waste collection, waste stream separation and the development of new sustainable recycling/disposal schemes. We are assisting with national studies, which we hope will result in significant industry investments in this sector. We will continue to work with local and regional authorities and planners to demonstrate the benefits of the transporting waste by water.

This will assist in fulfilling government policy and demonstrate our commitment in suggesting sustainable solutions. In some cases the wider benefits may justify us investing more in the provision of facilities adjacent to waterways

Containers - we are surveying commercial navigations to establish what needs to be done to make them more suitable for modern vessels and container sizes

We are working with the Marine Coastguard Agency to establish national technical standards for commercial vessels and crew competencies so that they are in line with European Directives. This will provide increased credibility for inland waterway and sea-river fleets to successfully compete for cargo.

We have introduced a simplified toll structure and revised our freight carriage conditions to provide greater clarity and certainty to freight operators. This should help to confirm our commitment and support to freight operators.

4.4.1.5 Third Party contributions

Third party contributions arise when we are successful in negotiating with local authorities payment for additional towpath or public realm works above the levels normally funded from government grant. The income has to be matched by an equivalent amount of expenditure, plus a small contribution from BW's core programme.

Third party funding will typically be c£11m pa during the plan period with three BU's contributing about two thirds of the total. Particularly successful relationships have been established in Border

Counties, North West and West Midlands. Focus is now being put into replicating this success where possible elsewhere. The following table illustrates the restated figures.

4.4.1.6 Dowry Acquisitions

Following success in recent years in the acquisition of additional waterspace and associated structures in return for dowry payment there are significant other opportunities available. Our analysis indicates that former dock space now supporting leisure businesses in locations such as Preston, Middlehaven (Middlesborough), Swansea and Boston are potential new targets.

There is also the possibility of extending our ownership in London Docklands and acquiring new build waterspace such as New East Manchester. It is anticipated that at least two of these acquisitions can be achieved within the period of the 3 year plan.

We are working with Peel Holdings to obtain a dowry from the Coal Authority in respect of mining subsidence compensation on the Bridgewater. This is part of our plans to develop a strategic alliance with Peel that would involve us in the management of the Bridgewater Canal and developing our interests together at Weston Point, Ellesmere Port, and Bowling (with Clyde Ports).

Core waterway income milestones	
• Resolution of Grangemouth water sales deal	Sept 04
• Establish new Mast Partnership	June 04
• Conclude surface water discharge agreements	March 05
• Deliver electricity industry agreement in Scotland	March 05
• £12.5m of third party contributions received.	March 05
• Two new dowry acquisitions.	March 07
▪ Complete a strategic alliance with Peel on Bridgewater, Western Point and Ellesmere.	September 04
▪ Freight	
- Assist Powerday in achieving planning permission for waste terminus at Willesden.	Mid 2004
- Prepare for the incoming MCA Regulations for commercial vessels and crew competencies ready	April 2005.
- Chair the steering group for the Inter-modal Waste and Recyclable Mass Balance Study for England & Wales due to be completed.	Mid 2005
- Develop 2 new aggregates traffic projects using the River Severn and River Trent for potential start up.	Late 2004
- Develop 2 new waste and recyclable projects using Midlands Waterways and Waterways Scotland.	Mid 2005
- Complete feasibility study for container traffic on Aire & Calder including FFG funding and associated multi-modal use of Stourton and Goole Inland Ports.	Early 2005

4.4.2 Core Waterway Expenditure

Core waterway expenditure priorities
• Deliver arrears programme (to national phased consequence of failure strategy)
• Meet safety performance targets, in particular our new benchmarking target based on Construction Industry Safety Benchmark Data produced annually by the DTI.
• Identify optimal cost base for adequate care of assets going forward and benchmark to reduce costs.

- Introduce and achieve new customer focused waterway standards to support an affordable programme of customer improvements targeted at leisure business priority areas.
- Increase use of recycled material.
- Continue to develop and implement plans for the use of operational capex.
- Target discretionary operational spending to complement priorities in other business areas.
- Deliver new workshops business plan.
- Initiative discussion on reclassification of waterways.

4.4.2.1 Safety

The safety of both users and our people (see section 3.5) is our first priority and concern. Waterways by nature are potentially dangerous places. We therefore have a duty to ensure:

- The risks to users and our people are minimised as far as possible
- Our employees are correctly trained
- We provide our people with the correct tools and safety equipment.

Following the launch of a new safety policy and safety transformation programme in 2003/04 we will put in place revised safety management systems covering all our activities. These will focus on management behaviour, effective leadership and competence.

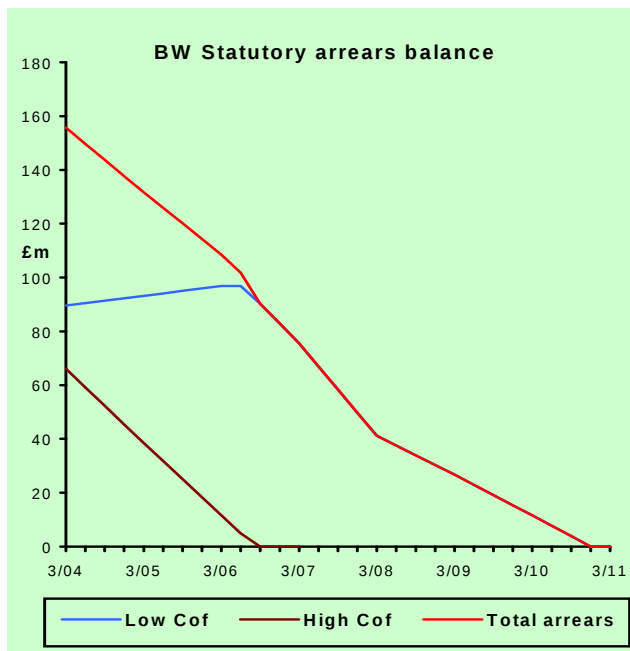
4.4.2.2 Safety Backlog and Statutory Arrears

The table below shows the outstanding balance of statutory arrears at the end of each year. Following the completion of the safety backlog, attention will now switch to completing the statutory arrears. We have decided that we must not only concentrate our resources on those assets with high COF but also increase the rate at which we are dealing with the problem. This will mean more expenditure on arrears over the period of this plan and less in future years.

Government are very supportive of this proposal but have not yet agreed to fund the short term costs. Despite the cut in 2004/05 grant our plans have maintained a high level of expenditure on arrears in 2004/5 because we believe that to not do so would represent an unacceptable risk to our strategic objectives.

Our internal target date for the elimination of statutory arrears is December 2010. The graph shows how under the COF approach we will complete the largest proportion of this work in the period to the end of 2007/08. Our published backstop date for completion of arrears remains at 2012. There are significant risks to our being able to fund this enhanced programme, particularly if grant is not increased. Therefore only the later date of 2012 can realistically be considered a funded commitment at this stage.

Aspirational target for Statutory Arrears



Plan Year	Balance B/f	Expenditure	Balance B/f
2003/04	171.5	21.1	158.0
2004/05	158.0	25.1	139.1
2005/06	139.1	28.8	115.9
2006/07	115.9	38.3	82.3
2007/08	82.3	38.3	47.3
2008/09	47.3	16.0	32.1
2009/10	32.1	16.0	16.3
2010/11	16.3	16.3	0.0

Note: Arrears programme subject to adequate government grant

Note: Carry forward figures do not equal brought forward less expenditure due to cost of further deterioration etc.

4.4.2.3 Water Supply, Management and Flood control

The recent floods and droughts in the 1990's are a possible precursor to the impacts that climate change may have in the next decade.

There is also the impact of the draft Water Bill, which will subject us to regulatory scrutiny and potential constraint, for our existing supplies. The European Water Framework Directive will, in due course, require even greater regulation of these resources. A project team headed by the Legal Director including the Technical Director has been set up to oversee the implementation of these pieces of legislation to mitigate the impact on our business.

One of the main consequences of these two pieces of legislation, both of which are intended to protect the environment, is that BW will have to have a better understanding of its use of water if existing resources are to be safeguarded and applications for new sources successful. This improved understanding will come from an extended hydrometric network, with all data captured remotely by a SCADA system. This is now largely in place and will be completed by 2004 and will allow more efficient management of resources particularly in waste minimisation.

In 2004/05 the Water Resource Optimisation Model is to be extended to cover all our canals to assist in providing a strategic plan for utilisation of resources. The Model will be refined with up to date rainfall/run off data within that same period.

Research will be undertaken into the main components of losses from canals to identify where future efforts are to be directed to minimise such losses commencing in 2004/05.

A corporate water resource strategy will be completed by August 2004.

Where embankments have a history of overtopping the risks and mitigation measures are covered through our principle inspection and maintenance programme. However, with the advent of more frequent flooding and climate change we are now embarking on an additional review.

Our research has identified high risk pounds and where full hydrometric assessments are required to fully understand the risk of overtopping. Where there is theoretical possibility of overtopping in extreme weather conditions a risk assessment with mitigation measures will be undertaken.

4.4.2.4 Waterway Standards

The waterway standards are the key measurement system for the level of customer service provided. During 2003/04 we revised the existing waterway standards to make them more customer focused and in particular ensure they meet the needs of all our customers not just boaters. Part of this process includes consulting with customers in line with Openness and Accountability.

The process will be completed in the first half of 2004/05 and the new waterway standards form an integral part of waterway plans from 2005/06. In the meantime the waterway standards as presented in last years plan remain.

4.4.2.5 Reclassification

The Water Act and the Water Framework Directive will change the way water resources are managed and regulated. Our water resources are better protected where they relate to cruising waterways rather than remainder waterways. During the period of the plan we intend to build a case to achieve reclassification where we consider it beneficial.

Core waterway expenditure milestones	
• Preparation of Corporate Water Resource Strategy	Aug 04
• Waterway safety management plans in place.	Dec 04
• Achieve annual statutory arrears expenditure of £25.1m and outstanding statutory arrears balance of £139.1m.	March 05
• Achieve third quartile of Construction Industry benchmark for safety performance	April 06
• Achieve fourth quartile of Construction Industry benchmark for safety performance	April 07
• Complete flood studies project and hydrometric studies on high risk sites	December 2004
• Complete extended hydrometric network	December 2004
• Commence research into components of losses	September 2004
• Extend Water Optimisation Model to cover all canals	2005
• Complete research on water catchment areas for embankments	2006

4.5 Ventures

Ventures priorities

- Launch BWML and achieve business plan.
- Establish Wood Wharf JV to enable achievement of agreed revenue targets at acceptable risk.
- Establish pub partnership and achieve plan.
- Achieve Waterscape business plan.
- Secure letting / disposal of Edinburgh Quay.
- Establish Gloucester Peel JV and achieve business plan.
- Achieve ISIS business plan targets.
- Achieve Watergrid business plan targets.

Ventures (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	6.1	4.8	4.6	8.4	13.8	17.0
Expenditure						
Controllable costs	5.7	6.6	6.3	9.7	10.5	13.2
Contribution before depreciation	0.4	(1.8)	(1.7)	(1.3)	3.3	3.8
Depreciation	0.2	0.2	0.2	0.1	0.1	0.1
Contribution after depreciation	0.2	(2.0)	(1.9)	(1.4)	3.2	3.7
Less 6% cost of capital charge	1.1	0.8	1.0	1.6	1.4	1.8
Economic value created / (consumed)	(0.9)	(2.8)	(2.9)	(3.0)	1.8	1.9

Financial Commentary

The Ventures net result improves during the plan period and the business area reaches accounting profit in the second year. This results from Waterscape losses reducing in line with plan, and profitable turnover growth in BWML bringing rising profits towards the latter part of the plan period.

By year three the two subsidiaries will account for 32% of Ventures business area profits, the remainder coming from dividends from investments such as ISIS and Edinburgh Quay.

There is not a constant correlation between movements in accounting contribution and EVC for this business area. This is primarily due to the lumpy nature of the equity flows into the various joint ventures.

As a result EVC in 2004/05 is £0.1m worse than the prior year even though contribution improves by £0.5m in the same period. This is caused by a higher cost of capital charge (up £0.6m) following additional planned investment in joint venture equity.

This can also work in reverse as in 2005/06 when EVC improves by £5m over the previous year whilst contribution only increases by £4.8m in the same period.

Commercial Commentary

The above table shows the financial impact on BW of subsidiaries and joint ventures. The major venture plans are individually summarised below although each has a separate approved business plan. The summaries below therefore concentrate on the financial impact of the venture plans on BW group.

4.5.1 ISIS

During 2003/04 the ISIS business plan was reviewed and updated to reflect greater understanding and knowledge of the ISIS sites. Over optimism within the initial bid has also been removed to arrive at a much more realistic plan. A summary is shown below in terms of the cash effect on the BW group business.

£m	2003/04 Budget	2003/04 F'cast	2004/05 Budget	2005/06 Plan	2006/07 Plan
Income					
ISIS dividend receivable		0.2	1.0	0.3	1.0
Capital					
Property sales into Isis	4.8	3.4	10.0	13.7	6.5
Equity into ISIS	-3.5	-2.5	-2.1	-6.8	-2.8
Equity repaid from ISIS	0.1				
Net capital cash flow	1.4	0.9	7.9	6.9	3.7

As we sell properties to ISIS we shall use part of the sale proceeds as our share of equity investment in the partnership. Equity will be repaid to BW along with our share of profits payable to us as dividends when the property is finally sold.

4.5.2 Water Grid

Consistent with the original plan there are no distributable profits to BW over this three year plan period.

The Watergrid business plan always predicted a slow build up as new customers are acquired and other customers persuaded to change from incumbent suppliers. One significant change to the plan hinges around the assumption that common carriage would be possible from 2008. The Water Bill issued during 2003 effectively rules this out limiting potential new customers to those which are already sited close to waterways or where it is economical to lay new pipes. An increased importance, in Watergrid's business plan, of waste water services also results from this reduced scope for water supply.

The following equity is planned to be invested over the plan period:

£m	2003/04 F'cast	2004/05 Budget	2005/06 Plan	2006/07 Plan
Equity investment in Watergird	0.4	1.4	1.7	0.8

4.5.3 Wood Wharf, Docklands

In last year's plan we referred to the acquisition of the port of London Properties during 2000/01 which included our largest single investment opportunity, Wood Wharf. We have decided that to maximise the value of this asset it should not be incorporated into ISIS but developed separately, largely because of the scale of this unique project. We plan on selecting our preferred development partner(s) during 2004/05. Following this more detailed development plans will be prepared. Current estimates are that the JV will start to generate an income stream to BW from 2007/08.

4.5.4 British Waterways Marinas Ltd (BWML)

Ventures - BWML	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	3.7	3.8	3.6	6.2	8.6	11.4
Expenditure						
Controllable costs	3.5	3.0	3.6	6.0	8.3	10.8
Contribution before depreciation	0.1	0.7	0.0	0.2	0.3	0.6
Depreciation	0.2	0.2	0.1	0.1	0.1	0.1
Contribution after depreciation	(0.0)	0.6	(0.1)	0.1	0.2	0.5
Less 6% cost of capital charge	0.1	0.1	0.1	0.2	0.2	0.3
Economic value created / (consumed)	(0.1)	0.5	(0.2)	(0.1)	0.0	0.2

Financial Commentary

BW earns income from BWML through two mechanisms: dividends and rents/service charges. The combination of these is the indicator of BWML's overall contribution to BW, though these will be accounted for in separate business areas.

Total Returns to BW (£m)				
	2003/04	2004/05	2005/06	2006/07
Rent and Service income to BW	0.1	0.5	0.8	1.2
BWML net profit	-0.1	0.2	0.2	0.5
Total for BW Group	0.0	0.7	1.0	1.7

During the plan period, the greater growth is projected from rental incomes to BW for two reasons:

- Rental levels will be, in part, linked to turnover
- Acquisition of new marinas by BWML give rise to early years rental income to BW prior to profit generation for BWML.
-

BWML's own growth is projected to arrive from

- Revenue growth from additional moorings, increased occupancy and pricing.
- Addition of other income stream such as brokerage and chandlery
- Further acquisition/developments of new marinas.

Controllable costs will rise significantly as the business gears up to focus its attentions on excellent customer service and the generation of extra revenues. In 2007/8 the BWML business will begin to reap significant rewards from these gear up costs and it is expected to return a profit before tax of £0.9m, and to make the first return to BW on its investment via a dividend of £0.6m.

Depreciation levels will reduce in the first three years of operations, as the Marina Company will not own the pontoons and marina infrastructure assets.

EVC improves by £0.4m pa by the end of the plan period. This is slightly behind the growth in contribution due to an increase in cost of capital charges to reflect further investments in the marinas.

Commercial Commentary

The initial focus will be to ensure the efficient operation of the initial marinas and to transfer all other marinas owned by BW. Poplar and Limehouse marinas in London are due to transfer in September 2004 and a further two during 2005/06 although this may be accelerated. The business will then be expanded through a combination of acquisitions and new developments as opportunities arise or are created.

4.5.5 Waterscape.com

Ventures - Waterscape	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Income	-	0.3	0.2	0.7	1.6	2.4
Expenditure						
Controllable costs	1.4	2.7	2.4	1.9	1.6	1.6
Contribution before depreciation	(1.4)	(2.3)	(2.1)	(1.2)	0.0	0.8
Depreciation	-	0.0	0.0	0.0	0.0	0.1
Contribution after depreciation	(1.4)	(2.4)	(2.1)	(1.2)	(0.0)	0.7
Less 6% cost of capital charge	0.1	0.2	0.2	0.2	0.3	0.2
Economic value created / (consumed)	(1.5)	(2.6)	(2.3)	(1.4)	(0.3)	0.5

Financial Commentary

Waterscape has been trading since July 2003. It is set to achieve its 2003/04 financial targets and its forward plan shows that it will become profitable in 2005/06 as planned. The period for payback of the full investment is now two years longer than originally envisaged.

This reflects significant weakening in online advertising rates across the market since the original plan was prepared. In addition, holiday commission income assumptions have been reworked in line with latest industry norms for sales conversion rates.

Action continues to identify, or accelerate, alternative profitable income streams to achieve a payback as close to the original business case as possible. To date, this has resulted in the opportunity to invest in a major new online tourism venture with Visit Britain which will contribute almost 20% of revenue by year 3.

Targeted investment in marketing and continual development of the website across the three plan years will grow the installed base of site visitors to c1.4million p.a. by 2006/07. It is expected that this will generate income growth of over £2million across the plan period. As the business becomes more efficient and the brand established, marketing expenditure diminishes by £200k across the 3 years.

EVC performance broadly tracks the improvement in accounting contribution, ending the period at £0.5m value created in 2006/07. The small differences are due to changes in cost of capital charges, that are based on the level of cumulative losses incurred.

Commercial Commentary

In 2004/05 waterscape will put special focus on achieving maximum benefit from its synergies with BW particularly in the areas of marketing and content enrichment.

Waterscape's strategic approach to the business for the period of the plan is:

- Achieve sustainable competitive advantage by quickly establishing the compelling consumer brand necessary for the business to own the category.
- Optimise the balance between commerce and content
- Establish multiple sources of revenue
- Maximise the profitability of revenue streams
- Manage down fixed cost base by utilising CRM techniques and moving key technical skills in house
- Entrepreneurial approach to business

We are also actively pursuing wider business models that have the potential to transform the scale of Waterscape's operations very radically. At this stage these initiatives are only appropriate to be included as identified opportunities in this plan.

4.5.6 Waterside Pub Partnership (WP5)

We are currently progressing the opportunity to form a new JV to deliver a number of waterside pubs, whose objectives are to increase visitor numbers, visitor experience and BW's share of their commercial success. We are in the middle of a public procurement process to select a partner and agree terms for such a JV and anticipate successfully completing the transaction by Autumn 2004. At that stage we envisage initially transferring to the new partnership some 60 BW sites, broadly split half-and-half between existing tenanted pubs owned by BW and development sites for the

creation of new pubs. Investment is anticipated in all 60 sites, with further opportunities beyond this initial portfolio for both acquisition and development.

The financial projections in this plan are based on the outline business case (OBC) for the partnership, drawn up in November '03. This will be modified in the final business case, to be prepared in Summer '04 once the detailed terms for the partnership have been established. The OBC is based on the initial portfolio of 60 sites i.e. excludes any growth beyond that. The OBC projects that, during the period of this three year plan, BW will receive capital from the disposal of the sites to the partnership, re-investing part of those receipts as equity, generating a net capital inflow but a reduction in rental income from our existing estate. Dividends to BW from the enhanced operation are anticipated beyond the end of the three-year plan period. The following figures are based on a tenanted pub operation:

£000	2004/05	2005/06	2006/07
Capital receipts	3,720	4,050	4,050
Equity investment	(930)	(3,219)	(2,963)
Rental income reduction	(480)	(960)	(960)
Dividends	-	-	-

No dividends are projected until year 5. The OBC projections show that the proposed venture has an NPV of cashflows at 8% of £24m compared to £12m under the do nothing scenario.

4.5.6 Other Ventures

As well as the major JV's and subsidiaries discussed above, our other significant ventures include:

- Edinburgh Quay: 50/50 with Miller Developments Ltd
- City Road basin: 49/51 with Miller Developments Ltd
- H₂O Urban: 49/51 with bloc Ltd
- Paddington Business Barges: 49/51 with Chelsfield plc

In addition to these, during the plan period we are targeting establishing a new 50/50 JV with Peel Holdings in Gloucester, during 2004. We also are progressing the opportunity for establishing a JV with English Partnerships, for which a number of site developments are under consideration. We also will continue to consider the potential for establishing other single site property development JV's, where appropriate.

The financial projections are based on the combined business plans of the four existing JV's listed above.

Other JVs	2003/04 Forecast	2004/05 Budget	2005/06 Plan	2006/07 Plan
£m				
Income				
Dividends	0.0	0.0	2.5	2.4
Capital				
Land Sales	3.2	8.8	5.0	0.0
Equity funding	7.2	12.1	0.8	0.0
Equity repaid	0.0	0.0	7.4	0.9

Edinburgh Quay's main targets are

- Phase 1 construction completion May 04
- Full letting of phase 1 and institutional sale December 04
- Disposal of Queen Street building December 04
- Further phases are under consideration

City Road Basin's main targets are:

- Local authority adopted masterplan April 04
- Acquisition of Access Road storage site April 04
- Detailed planning application September 04
- Planning granted and land sales completed March 05
- Further acquisitions under consideration

H₂O Urban's main targets are:

- Development and disposal of initial 4 London sites during 05/6
- Further site acquisitions under consideration

Paddington Business Barges' main targets are

- Growth from three fully let barges at the start of the plan period to:
- Nine by December 04, and
- 19 by March 06.

Ventures milestones	
• Poplar and Limehouse marinas transferred to BWML	Sept 04
• Pub Partnership formed	Sept 04
• Wood Wharf partner contracted	Dec 04
• Gloucester JV formed	Dec 04
• Edinburgh Quay disposal	Dec 04
• City Road land sales	Mar 05

4.6 Corporate Services

Corporate Services priorities

- Significantly reduce occupied property costs.
- Consolidate SAP implementation and realise benefits including integration of management accounts into the business..
- Implement desktop/server outsourcing contract,
- Successfully migrate identified processes into shared service.
- Secure better value from BW Group buying power.
- Achieve target outcome from End to End Review.
- Identify an acceptable solution to Pension Fund deficit.
- Achieve 5% energy reduction
- Embed Openness and Accountability systems and procedures

Corporate Services (£m)	Actual 2002/03	Budget 2003/04	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Expenditure						
Controllable costs	26.3	24.2	26.8	24.3	22.4	22.3
Net costs before depreciation	(26.3)	(24.2)	(26.8)	(24.3)	(22.4)	(22.3)
Depreciation and finance charges	2.2	1.9	3.3	1.3	1.1	1.2
Net costs after depreciation	(28.5)	(26.1)	(30.1)	(25.6)	(23.5)	(23.5)
Less 6% cost of capital charge	1.2	1.2	1.2	1.3	0.1	0.1
Economic value created / (consumed)	(29.7)	(27.3)	(31.3)	(26.9)	(23.6)	(23.6)

Financial Commentary

There have been major changes in the structure of the Corporate Services business area following re-organisation. In addition this latest planning round using SAP has identified costs that should be more accurately charged to other business areas.

The figures above have been adjusted to put the prior and plan years on the same footing. There is no longer any income within corporate services and the business area is primarily a set of expenditure budgets.

The reduction in planned spend across the three years reflects action to curb the absolute level of overhead costs. The biggest single saving comes from anticipated savings from occupied property costs (primarily offices) This is planned to produce savings/additional income as currently occupied premises are sold on.

Commercial Commentary

Corporate service costs include all costs that cannot be attributable directly to a business area. The costs include IT infrastructure and outsourcing contracts, shared services for finance and personnel, corporate marketing as well as strategy and policy setting.

Following the business re-organisation we are actively pursuing a policy of rationalising the amount of occupied property consistent with achieving our customer service objectives.

We are looking for the best way to minimise total occupancy costs and maximise investment income or development potential.

Our priority for SAP is to build on the recent success of onsite based support visits to develop confidence in users so that they can begin to exploit the system. The General Managers will be enabled to genuinely use the technology to run their business smarter.

The desktop-server outsource contract will be implemented from April 04 and will yield cash savings of £0.5m pa whilst bringing early upgrades to hardware and software.

Phase I of Shared Service migration successfully completed in February 2004. Plans are now being put in place to migrate further processes in another 3 phases. Transfers into shared services are targeted for a 30% efficiency saving.

Continued development of the Procurement function will be actively pursued. The main changes will be as follows:-

- i. A greater focus on maximising the economic advantage of BW Group buying power.
- ii. The transfer of routine works to the shared service centre to free up Procurement Managers to undertake national procurement roles.
- iii. Early development of the electronic procurement capability of SAP to secure better values and further reduce transaction costs.
- iv. Changes to the budgeting system that will enable procurement savings to be ring fenced for allocation in line with Group priorities.

A major initiative will be undertaken during 04/05 to achieve better value from the Omnibus engineering contracts. A joint team involving Technical Group, procurement and finance staff will identify how best to improve on current values obtained from Omnibus.

4.6.1 Pension Fund

During 2004/5 we will work with our actuaries to complete a triennial valuation of the Pension Fund.

We are anticipating that there will be a deficit that will need to be addressed. We plan to have identified appropriate ways of dealing with any such deficit in time for implementation for 2005/06.

The figures presented in this plan do not include any additional costs to BW. This item is included as a key risk to the financial plan in Section 3.6.

4.6.2 Openness and Accountability

Following the successful consultation we are now establishing the processes and procedures to fully meet our commitments to Openness and Accountability. This includes the establishment of the National Consultative Council.

Corporate Services milestones	
• Complete review of major offices.	June 04
• End to End Review findings complete	Sept 04
• Implement outcomes from review of major offices.	Dec 04
• Phase II transfer of admin activities to shared service centre complete.	Jan 05
• End to End Review Recommendations implemented	June 05
• Complete Triennial Valuation of Pension Fund	June 04
• Implement appropriate funding plans for Pensions deficit.	April 05

5. SUSTAINABLE DEVELOPMENT

Our statutory responsibilities extend beyond just those of a navigation authority and the maintenance of the waterway infrastructure. We believe in a sustainable approach to the long term management of the network and this requires us to balance the needs of the environment, heritage, social inclusion and economic growth in all that we do.

Our business is extraordinarily diverse and embedding a sustainable approach to everything we do is an enormous challenge. We need to engage with all our people and ensure that they understand the principles of sustainable development and the implications for their particular sphere of activity.

The diagram below is a good simple mechanism for publication that demonstrates and measures our progress towards improved sustainability. Internally we need a more detailed and sophisticated mechanism to embrace as much of the business as possible.

We will develop themes that cut across all business areas and set priorities, standards and objectives within each theme to move the organisation towards greater self sufficiency. The themes will be:

- Our People
- Customers and Communities
- Resource Management and procurement
- Environment and Heritage management.

These themes, the priorities, standards, objectives and action plans need further development. We intend to achieve this through a series of workshops involving both the Executive and the Board early in the new financial year.

Conserving and improving both the natural and built environment are already core responsibilities for BW. Social and economic benefits are an essential outcome of our restoration, regeneration and property development programmes.

Last year we analysed our business areas and the way they interact with the three sustainable development areas and presented the results as follows:

SUSTAINABLE DEVELOPMENT			
BUSINESS AREAS	SOCIAL	ECONOMIC	ENVIRONMENT & HERITAGE
PROPERTY	Affordable housing units created	The income we generate for re-investment in the waterways is a	Reducing number of buildings on the English Heritage 'at risk' register
RESTORATION AND REGENERATION	Miles of newly accessible waterway corridor	proper measure of economic benefit, as all the income we earn is spent on	Miles of historic waterways restored
LEISURE	Visitor numbers and visitor satisfaction levels	the waterways. Our business plans are a good indicator of our	Number of interpretation schemes completed
CORE WATERWAY (Wayleaves & Premiums)	Improved appreciation through changed attitudes	achievements in this area.	Reduced CO2 emissions from employee vehicles by reducing business mileage
VENTURES (ISIS, Watergrid, Waterscape)	Hits on the Waterscape website		% of ISIS projects meeting sustainable development criteria

Throughout 2003/04 we have built upon the above and started to measure progress using the indicators identified. The forecast results for the first year of measurement and improvement targets are shown in the table below. Economic indicators are shown against each of the business areas in section 4 of this plan.

Business Areas	Sustainable Development Themes	note	Output 03/04	Indicators
Social				
Leisure	Number of visitors (million adult visitors per 2 week period)	(1)	3.6	To double this figure by 2012
	'Excellent' visitor satisfaction levels – boat owners	(2)	9%	15% by 2008
	'Excellent' visitor satisfaction levels – towpath users	(3)	42%	66% by 2008
Property	Affordable housing units created		18	300 (cumulative)
Core Waterway	Improved appreciation through changed attitudes	(4)	64	>64 by 2008
Restoration	Miles of newly accessible waterways corridor		25.3	120 (cumulative)
Ventures	Hits (page impressions) on waterscape.com website (millions)		2.8	50 (cumulative)
Environment & Heritage				
Leisure	Number of interpretation schemes completed		13	100 (cumulative)
Property	Reducing number of our buildings on English Heritage & LA 'at risk' register		118 buildings on registers	27 buildings on registers by 2008
Core Waterway	Reduced CO2 emissions from employee vehicles by reducing business mileage (million miles pa)		6.6	6 by 2008
Restoration	Miles of historic waterway restored		6.4	10 (cumulative)
Ventures	% ISIS projects meeting sustainable development criteria		100%	100%

Notes

- (1) In August 03 we commissioned a new long-term survey to get a clear idea of the number and type of waterway visits. Data so far suggest that there are an estimated average of 3.6 million adults visiting our waterways over a two week period during the year, generating around 415 million visits over the whole year.
- (2) Percentage of boat owners that rate the overall upkeep of the waterways as excellent (68% rate them as good or excellent).
- (3) Percentage of towpath users that rate the overall enjoyment of the waterways as excellent (91% rate them as good or excellent).
- (4) We have a telephone tracking survey which traces movements in public perception of the value of canals and rivers compared with other nationally important assets. Currently, the seaside is rated at the top of the sale at 100, followed by parks and gardens at 90, woods and forests at 86, historic houses, castles and other monuments at 78, zoos, wildlife parks and farms also at 78 and museums and galleries at 73. Valued at 64, canals and rivers are starting at the bottom of the list of those surveyed. Our vision is that by 2012 inland waterways will be regarded as one of the nation's most important and valued national assets.

5.1 Environment and Heritage

The reorganisation has put more expertise in this area within the Business Units rather than at the centre. Knowledge and understanding of environmental issues is strong within the organisation. There is less heritage expertise but there is nevertheless great enthusiasm and understanding. Over time we plan to increase the heritage expertise within the business. Our Environmental Code of Practice is the main management tool to ensure we:

- Comply with environmental legislation
- Deliver policy commitments and improve the business by demonstrating excellence in waterway conservation management
- Achieve sustainability
- Comply with best working practices.

During 2004 the Environmental Code of Practice will be updated in line with evolving best practice and appropriate legislation.

WOW, in partnership with Service Managers and their local teams, will identify and work with members of the local community who have a negative impact on their local waterway.

Having made very considerable progress in recent years in the way we treat the built heritage on our own estate our customers and stakeholders are now expecting us to intervene more to protect the built heritage alongside our waterways but owned by others. We agree that we should champion the cause of waterway heritage but we cannot instantly find the resource to do this alone. We shall increasingly work with volunteers and local societies to form effective informal partnership where our combined knowledge and effort will be more effective.

5.1.1 Environment

We own and manage some 66 sites of Special Scientific Interest. In 2003 English Nature completed a national survey of all SSSIs and ruled them 'favourable', 'recovering' and 'unfavourable'. The national average was 70% at 'favourable' or 'recovering' and our sites averaged 66%. We cannot completely control all the factors that affect the condition of our sites (others discharge into them, for example). English Nature will give a site 'recovering' status if it has a management plan agreed with them and their target is to have 95% of sites 'favourable' or 'recovering' by 2010. There will be some difficult discussions ahead particularly with regard to the impact of navigation. This combined with English Nature not having any agreed methodology yet means we can only plan to achieve 10 management plans this year. We would hope this could be increased to 20 p.a. in the following years.

Milestones

- Reduce BW buildings on Local Authority register by 25% each year.
- Reduce BW buildings on English Heritage register to 1 by March 2005 and nil by March 2006.
- Agreed SSSI management plans with English Nature at a rate of 10 in the first year then 20 p.a. thereafter.
- Change our company car policy to provide diesel working cars by June 2004.
- Set a target of 5% p.a. less energy used by the company by March 2005.

5.2 Social Inclusion

Engaging with and helping to meet the needs of local communities is a core part of our work. It is also a massive challenge, which has the potential to use up all our spare resource. We shall therefore continue to concentrate on 3 main areas:

- Education (through WOW)
- Access for All
- Community Relations (including the reduction of vandalism and threatening behaviour and encouraging use by a diverse range of people).

We wish to see more people especially ethnic and disadvantaged groups visiting the waterways; we want there to be fewer incidents of vandalism and anti social behaviour directed at our property and our visitors and we want the next generation to value their inland waterways so they will support and protect the waterways.

Our market research will give us information as to the overall numbers and mix of our visitors. Towpath and boating customer surveys inform us of satisfaction levels which should reflect levels of vandalism and anti social behaviour. We are also measuring the public's perception of the value of our waterways and increases here should reflect amongst other things our education work.

Milestones

- | | |
|--|------------|
| ▪ Confirm local diversity targets reflect community mix | June 2004 |
| ▪ Achieve 15% improvement pa in performance against target. | June 2005 |
| ▪ Engage 50,000 school children in WOW initiatives | March 2005 |
| ▪ Engage 55,000 school children in WOW initiatives | March 2006 |
| ▪ Engage 60,000 school children in WOW initiatives | March 2007 |
| ▪ Each waterway to define an action plan for Disabled Persons Access requirements
For access to BW property | 2005/04 |

APPENDIX 1 – GOVERNMENT GRANT

Government grant credited to the P&L account reconciles to the cash grant receivable as follows:

£m	Actual 2002/03	Budget 2003/04	Forecast 2003/04	Actual 2003/04	Budget 2004/05	Plan 2005/06	Plan 2006/07
Cash							
DEFRA - Base	61.6	61.6	61.6	61.6	59.1	61.6	61.6
DEFRA - Statutory Arrears	10.0	15.0	15.0	15.0	0.0	0.0	0.0
Scottish Executive - Base	9.5	8.4	12.8	14.5	8.9	8.9	8.9
Scottish Executive - Anticipated	0.0	2.0	4.2	0.0	2.0	2.0	2.0
Cash grant receivable	81.0	87.0	93.5	91.1	70.0	72.5	72.5
Opening grant accrual	0.0	0.0	(4.4)	(4.4)	(4.8)	(4.8)	(4.8)
Closing grant accrual	4.4	4.8	4.8	7.2	4.8	4.8	4.8
Deferred capital grant released to P&L	2.2	1.3	1.3	1.5	1.3	1.3	1.3
Grant allocated to capital expenditure	(5.6)	(1.5)	(1.7)	(0.7)	0.0	0.0	0.0
	0.9	4.5	0.1	3.6	1.3	1.3	1.3
Grant credited to P&L account	82.0	91.5	93.6	94.8	71.3	73.8	73.8

There is considerable uncertainty around forward grant figures as we enter the new 3-Year Plan period.

- i. We have had to absorb the cut in 04/05 at short notice ostensibly as a one off item.
- ii. Defra are not able to confirm that it will definitely be reinstated for 05/06.
- iii. The new Public Spending round SR2004 will not allow any upward bids for 05/06 and our best scenario is therefore level on 03/04 baseline for the second year of our plan.
- iv. Bids were submitted in October 2003 under SR2004 for 06/07 and 07/08 comprising
 - Inflation of the baseline to maintain its real terms 2003/4 value
 - Additional £2.1m pa to ensure we can achieve 2010 backstop date for arrears
 - £3m pa estimated costs of pension fund deficit from 05/06
- v. Proposed change to contract approach and the End to End Review.

The SR2004 bid was optimistic given the wider public spending climate and Defra's general budgeting difficulties. In doing so we were responding to advice from senior officials to maximise our prospects for a SR2004 increase in grant by demonstrating a "pay now save later" scenario.

The bid therefore included a cumulative £26m increase over existing baseline for the first three years followed by a reduction (from the increased amounts) of £5m pa from 2008/09. The £5m reduction was to be covered by anticipated growth in other income by that time.

Concurrently with the bid we revised our strategy for dealing with statutory arrears that is now based on high consequence of failure (COF) assets. This risk based approach was warmly

endorsed by the Minister during subsequent presentation and we plan to stick with this notwithstanding near term pressures on grant.

We are determined to protect the arrears targets and this has been taken into account in recent action on fixed costs. This will enable spending on high COF assets to take place alongside other priorities. The financial headroom created by re-balancing the cost base should avoid cuts in the arrears spend if income should be below plan in the short to medium term. In the longer run persistent reductions in grant would make our targets unachievable.

We want to maintain our internal aspiration of completion by 2010 but only as an unfunded target. The COF approach is consistent with this requiring higher spend in the early years than a smooth spreading of the current outstanding balance.

Following the grant cut, and given considerable risk and general uncertainty over the future impact of funding on the arrears profile, it would be too risky to change the 2012 date as a public commitment at this time.

We have previously demonstrated the potential impact of a failure to inflate the grant to government. This still applies, however, following the restructure and with greater understanding of our total cost base going forward it may be possible to mitigate some loss of grant inflation uplift if it is not forthcoming.

We therefore plan to include this specific question in the internal work that will be undertaken for the End to End Review. This is already scheduled to include detailed consideration of how a government contract can best work, and the identification true steady state costs for the network.

In the meantime, we will continue to put all possible pressure on Defra to meet our valid claims for higher grant and a proper index linking of the baseline grant.

Appendix 2 – PROFIT & LOSS ACCOUNT

The following table shows the planned income and expenditure and year on year net result for the three years beginning April 2004.

	P11 F'cast 2003/04	Plan 2004/05	Plan 2005/06	Plan 2006/07
Property	24.5	25.8	28.0	30.6
Leisure	17.1	18.8	20.4	22.0
Restoration	0.8	7.8	22.1	23.0
Core Waterway Income	54.5	42.9	42.7	41.1
Ventures	4.6	8.4	13.8	17.0
Grant	93.6	71.3	73.8	73.8
Income	195.1	175.0	200.8	207.5
Payroll	61.2	60.2	61.6	63.5
Staff Related costs	10.7	7.7	7.8	8.0
Materials and Contract	82.9	69.2	92.7	97.3
Operational Costs	9.5	8.7	7.6	7.9
Premises costs	7.3	7.7	5.6	5.7
Professional fees	14.2	10.0	9.5	8.0
Outsourcing	2.7	3.8	3.8	3.8
Office Services	3.9	2.7	2.6	2.7
Publicity	4.3	3.3	2.5	2.6
Costs of Goods sold	2.1	3.7	4.6	5.6
Own work capitalised	(0.1)	(1.0)	(1.1)	(1.0)
Other costs	3.3	1.1	0.4	0.5
Total Expenditure	202.0	177.1	197.6	204.5
Profit / (Loss) before Interest	(6.9)	(2.1)	3.2	3.0
Interest payable/(Receivable)	(0.3)	3.4	3.3	3.1
Profit / (Loss) after Interest	(6.6)	(5.5)	(0.0)	0.1
Transfer to/(from) realised capital reserve	(1.1)	1.4	0.0	(0.1)
Profit / (loss) after Transfers	(5.5)	(4.1)	(0.0)	0.0

Note: Included within the above expenditure is:

Contingency and priorities (MAD)	5.0	8.9	13.3	8.7
----------------------------------	-----	-----	------	-----

Income and Expenditure

1. Income

1.1 Property £25.8m (2003/04 £24.5m)

The increase in income of £1.3m in 04/05 (6%) is a result of income from additional investments following the Liverpool dowry in 2003/04 and ongoing rent reviews. The increase is net of the effect of income lost following transfer of properties into Isis and the Gloucester Quay JV with Peel Holdings.

Increases in subsequent years reflect continued implementation of the Commercial Investment Strategy.

1.2 Leisure £18.8m (2003/04 £17.1m)

Income is £1.7m (9%) higher in 04/05, and subsequent plan years see further growth of 17%. The main contributors to the growth are craft licence and mooring income in line with strategy to increase boat numbers by 4% pa. Increases in takings in visitor centres particularly Falkirk add a further £0.8m pa.

1.3 Restoration £7.8m (2003/04 £0.8m)

Income is planned to grow as Network 2025 schemes get off the ground subject to successful completion of terms with funders. Income over the next 3 years is planned to grow to £23m pa by 2006/07. The main contributors are as follows:-

Income planned over 3 Years	
	£
Liverpool Link	13.0
Cotswolds	9.0
Manchester Bolton & Bury	8.0

1.4 Core Waterway Income £42.9m (2003/04 £54.5m)

Core waterway income reduces in 04/05 as the beneficial effect on one off utility arrears receipts in 03/04 drops out. Further back payments are planned for 05/06 but this is offset by other income movements.

1.5 Grant £71.3m (2003/04 £93.6m)

Full details of grant movements are shown in Appendix I.

1.6 Ventures £8.4m (2003/04 £4.6m)

Turnover growth in BWML is the main contributor to increased Ventures income, particularly in 04/05 and 06/07. BWML growth in 05/06 is supplemented by increased dividend income, particularly Edinburgh Quay following completion of Phase I of the development.

2 Expenditure

2.1 Payroll and staff related Costs £67.9m (2003/04 £71.9m)

Payroll reduces as a result of action to rebalance the cost base and further recruitment is tightly controlled, notwithstanding growth in income. Second and third year increases are largely inflation, and small increases in areas such as BWML.

Staff related costs have also been reduced year on year but the bulk of the reduction in 04/05 is due to the prior year figures including restructure costs.

2.2 Materials and contract costs £69.2m (2003/04 £82.9m)

Materials and contract spend is down in 04/05 following the completion of safety backlog, the end of the additional £30m grant and cost control initiatives.

Increases in subsequent years reflect increased restoration income assumptions and the phasing of the Consequence of Failure strategy on maintenance arrears spend.

2.3 Operational Costs £8.7m (2003/04 £9.5m)

Operational costs reduce in 2004/05 reflecting the effects of reduced depreciation with the IT outsourcing project.

2.4 Professional fees £10.0m (2003/04 £14.2m)

Professional fees are lower reflecting cost control initiatives lower activity (see materials & contract) and phasing of fees on business development.

2.6 Publicity £3.3m (2003/04 £4.3m)

Costs are reduced in line with the decision to defer marketing activity until there is greater clarity on the BW leisure proposition. Marketing costs have also been reduced as part of the exercise to rebalance the cost base.

2.7 Premises Costs £7.7m (2003/04 £7.3m)

Premises costs reduce in the second to third year as the occupied property disposal strategy delivers savings through release of surplus offices post restructure.

2.8 Net Interest payable £3.4m (2003/04 £0.3m) (net receivable)

Interest payable increases as 2003/04 benefited from significant cash holding following Liverpool Dowry.

2.9 Transfer from Realised Capital Reserve. £1.4m (2003/04 £1.1m)

Costs associated with ventures work up costs that cannot be capitalised under accounting standards but are funded for management accounts purposes by commercial capital.

2.10 Priorities Fund £5m (2003/04 'Make A Difference' £5.0m)

Funds set aside for strategic initiatives to deliver the 10-Year Plan see Section 3 of this plan. Funds will be released during the year for non-recurring expenditure.

Appendix 3 – SUMMARY SCOTLAND PLAN

SCOTLAND

	P11 F'cast 2003/04 £m	Plan 2004/05 £m	Plan 2005/06 £m	Plan 2006/07 £m
Property	0.4	0.5	0.6	0.8
Leisure	2.1	2.5	2.9	3.2
Restoration	0.0	3.5	2.1	0.0
Core Waterway Income	1.2	0.8	1.0	0.9
Ventures	0.2	0.2	2.2	1.4
Grant	12.6	10.9	10.9	10.9
Income	16.5	18.4	19.7	17.2
Payroll	4.8	5.3	5.6	5.7
Staff Related costs	0.7	0.6	0.6	0.6
Materials and Contract	6.9	9.4	8.1	5.7
Operational Costs	0.7	0.9	0.9	1.0
Premises costs	0.6	0.6	0.6	0.6
Professional fees	0.7	0.7	0.7	0.7
Office Services	0.4	0.3	0.3	0.3
Publicity	0.4	0.4	0.4	0.4
Costs of Goods sold	0.4	0.5	0.6	0.7
Other costs	0.5	0.4	0.4	0.4
Total Expenditure	16.1	19.1	18.2	16.1
Profit/(Loss)	0.4	-0.7	1.5	1.1

Financial Commentary

Income

Further investment in two new higher capacity trip boats in 2004/5, together with other initiatives, will increase the level of income generated at the Falkirk Visitors attraction.

Progress in delivering the Lowlands Nodal Development strategy, such as the development of Auchinstarry; will lead to an enhanced level of income from additional moorings.

Within the three years of the plan, joint venture developments are scheduled to produce significant one off profits, and as a consequence a non-recurring profit is shown in the later years. This dividend income will be returned to BW Group for redistribution within corporate plans following losses in Scotland in previous years. The figures are included within the Group figures in this plan.

Core waterway income is scheduled to reduce, as we are not anticipating significant third party grant income raising projects to commence. However we are currently negotiating a major restoration project at Port Dundas that is not yet reflected in this plan. If the project proceeds, both income and expenditure will increase.

A major risk inherent in the plan is that the additional £2m of Scottish Executive Grant, fails to materialise.

Expenditure

Following a number of internal and external reviews regarding manning levels, our payroll costs show an increase over the current year. This is due to growth at the visitors' centre, and the strengthening of our team across management, customer service and operations.

We are constantly challenging fixed costs including payroll, and are forecasting only modest levels of increase over the three years of the plan.

Commercial Commentary

Our vision for British waterways in Scotland is that the waterways will be managed and acknowledged as being managed in a sustainable way to provide maximum benefit and enjoyment to all sections of society. This is consistent with the policy document, "Scotland's Canals – an asset for the future."

We will work within the framework of British Waterways' corporate objectives while seeking to meet the aspirations of the Scottish Executive as now laid out in Scotland's Canals policy document. The British Waterways Scotland Group plays a key role in advising on any differences arising from Devolution in Scotland.

Lowlands Canals

Our overarching priority, is to make a success of the reopened Lowland Canals, including the visitor attraction at the Falkirk Wheel. The end result, over a number of years, will be canals, which are integrated into the communities they serve creating a sense of community ownership and value. The long-term future of British Waterways in Scotland is closely linked with the transformation of the Lowland Canals.

Following the re-opening to navigation, many of our partners seem to believe that their work is now complete and have to a certain extent turned their attention away from the Canals. We take the opposite view that their task – the stimulation of a wider corridor of development and activity – is now pressing. We also consider that the canal infrastructure and facilities require significant further investment and improvement. Our customers and visitors expect increasing standards of service and support. Our neighbours can be uncomfortable with increasing canal side activity where previously there was none. After such a long period of stagnation or isolated activity there is also resistance to the necessary commercial changes.

Our future income generating projects lie mainly in the Lowlands with property development opportunities and potential commercial developments on identified sites along the Canal. The relationship between the security of the canal infrastructure, the development of facilities and the

wider regeneration is crucial. With adequate funding it can be a virtuous circle, but can quickly become a vicious circle without funding.

Highland Canals

Caledonian Canal Commercial Operators Fees

Following extensive consultation and discussion we will be introducing a new system of commercial fees on the Caledonian Canal. For successful businesses the fees levied will be related to turnover with different business types attracting different percentages of turnover. Below the turnover threshold a flat rate fee will be levied. The concept is to link BW and its commercial customers in a business to business relationship where it is in our financial interest to provide a quality service and assist businesses to grow. Initially, the total fees levied will be approximately £30,000 less than before, but we will have established a consistent system linked to turnover. As businesses grow their fee will automatically rise.

Caledonian Canal Operational Review

We have completed an operational review on the Caledonian which included renegotiating the terms of pay for existing permanent employees. A settlement has been reached creating a new clear framework which allows management to manage the canal to suit the business and which rewards employees appropriately. Flexibility is a key part of the package which sets a clear benchmark for future arrangements throughout BW.

Grant Funding

In recent years the level of baseline Grant in Aid from the Scottish Executive has been increased from £7.1m in 2001/02, to £8.4m in 2002/03 and subsequently £8.9m. We have made very clear to the Scottish Executive that these levels of funding are still inadequate. While the Scottish Executive hold the view that they are currently unable to overtly increase the baseline funding announced in the last Spending Review they have been providing additional funding on an ad hoc basis. £4.2m of additional grant funding has been announced in two separate tranches during 2003/04.

Prior to the start of the financial year we had advised the Executive that we would require additional funding of £2m to allow us to complete the elimination of Safety Backlog in Scotland. We further advised that we required to be advised of the funding before the end of September 2003, but that we would plan and tender a programme of works – Caledonian Locks – in advance. The required £2m was announced in September allowing us to let the planned contracts and complete the elimination of Safety Backlog. The remaining £2.2 million was not announced until February 2004 very late in the financial year. Nevertheless a substantial proportion has been allocated to the reduction in Statutory Arrears.

We have again advised the Scottish Executive that we require additional ad hoc funding of at least £2m. While we can only be sure of the baseline grant, the Executive has indicated a continuing support and we have produced a business plan based on this baseline grant of £8.9m plus an anticipated additional grant of £2m.

We will be providing a strong case to the Scottish Executive for a significant increase in baseline grant following the forthcoming Spending Review.

Reorganisation

With the assistance of an Interim Manager we have reorganised the business in Scotland. In essence the new structure mirrors that in England and Wales, but recognises the impact of Devolution and the geographical size and cultural differences between central Scotland and the Highlands. We have combined the management and operation of the Caledonian and Crinan canals under a new Highlands Manager. We have retained a Lowlands Manager. We have introduced the new positions of Commercial Manager and of Legal & Corporate Affairs Manager. To reflect the new structure elsewhere, the Lowlands Manager also has an overview role as Operations Manager while the Highland Manager has an overview role as Service Manager. The aim is for consistency and for better integration between Highlands and Lowlands. The manager at The Falkirk Wheel now reports to the Commercial Manager. The site operations at the Wheel, as distinct from the visitor experience, has now been merged into Lowlands operations. The Legal and Corporate Affairs Manager has both a Scottish and a Corporate Role. There is much legislation generated by the Scottish Executive which we must track, understand and influence. There is also much emerging European legislation and the Glasgow based manager will be covering that aspect on behalf of and working with the Legal Director at H.Q.

The main priorities in Scotland, in addition to the prime role of improving safety performance, are:

Scotland strategic priorities

- Income growth.
- Develop the Lowlands canal corridor via master plan, nodal strategy and development sites.
- Focus on customer issues and improve the return from the Falkirk visitor attraction.
- Continued dialogue with the Scottish Executive to secure sufficient funding.
- Engage with stakeholders (e.g Local Authorities, Visit Scotland)

Priority Actions:

- Retrieve value from water sales initiative at Grangemouth
- Progress development sites to generate either capital growth or revenue at Edinburgh Quay; Rosebank, Falkirk; North Glasgow
- Secure canal link into Port Dundas at acceptable risk
- Increase moorings to attract additional craft
- Refine offer and improve margins at Visitor Centre
- Establish Scottish Canals Development Committee
- Track emerging Scottish legislation etc. and influence in line with BW position.